

Manolia Homes Guide to Renting Commercial Property

What is a lease and why do I need one?

A property lease is an agreement between you and your landlord allowing you to use the premises. The lease will usually be in writing and covers the rent, space occupied, and length of lease as well as your obligations and rights. Leases tend to be complex documents, which is why it is important to get a basic understanding of how they work. This guide outlines the key areas in detail, these are:

- What a lease covers
- Hidden costs you should look out for
- The importance of getting professional help

What does a lease cover?

The lease should cover the following areas:

- Your rent and how much it could go up to over the length of the lease.
- The length of the lease.
- Any get out clauses. For example, if you hit financial difficulties will your landlord agree to let you give up the lease before the expiry date?
- Alternatively will they let you transfer the premises to somebody else?
- Are you expected to provide a guarantee? Small and new businesses are likely to be asked to provide a rent guarantee to prove they can meet the rental costs.

Watch out for this - in most instances a bank guarantee will be fine, however some landlords may want a cash deposit or they may insist on taking a charge on director's personal property.

- Find out what happens when the lease ends. Do you have the right to renew the lease? - if you're running a shop or restaurant this is a very important consideration, as changing location could have a bit impact on your business.

Hidden costs

Dig into the small print and get answers to the following questions:

- What's included in the service charge? In addition to your rent you may also have to pay a service charge, which typically covers services such as cleaning, heating and lighting. Find out exactly what is covered and how the costs are calculated.
- Who is paying for insurance? Do you have to insure the property yourself, or do you have to pay for your landlord's insurance? Are these costs covered in your service charge?
- Who pays for repairs? Does the landlord expect you to carry out repairs, or to cover the cost of repairs the landlord carries out? Does the lease say you have to leave the premises in a certain state of repair, even if it's currently in a poor condition?

Get professional help

Property leases can be complex legal documents written in an arcane language, which is why you should employ experts (a solicitor and maybe a surveyor) to help you weed out any clauses that are unfair or need further clarification.

- Find a reputable surveyor with the help of the [Royal Institute of Chartered Surveyors](#)
- Use the Law Society's [online database](#) to find a solicitor

Below is an explanation of all things you are liable to pay while renting a commercial property.

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Business Rates

Business rates also known as non-domestic rates, are the tax levied by central government on businesses. The rates are set by central government and it is the responsibility of local authorities to collect the money. Although the tax is collected locally, it is re-distributed across the country by central government. In Westminster for example this means that the amount retained by the council is only a small proportion, around 4%, of the amount actually collected.

Premium

A premium is an upfront payment to the current business owner to take over that existing business, this doesn't apply if you are renting an office space. Make sure you check what the existing net turnover is and ask to see proof of income. We recommend that you have an accountant to look over this and ensure the figures are correct.

What type of Licence do I need?

Depending on the nature of your business you may need to apply for a particular licence if the property does not already hold one. Below is a breakdown of every licence type across the country and what is covered within that particular licence.

- **A1 Shops** - Shops, retail warehouses, hairdressers, undertakers, travel and ticket agencies, post offices (but not sorting offices), pet shops, sandwich bars, showrooms, domestic hire shops, dry cleaners, funeral directors and internet cafes.
- **A2 Financial and professional services** - Financial services such as banks and building societies, professional services (other than health and medical services) including estate and employment agencies and betting offices.
- **A3 Restaurants and cafés** - For the sale of food and drink for consumption on the premises - restaurants, snack bars and cafes.
- **A4 Drinking establishments** - Public houses, wine bars or other drinking establishments (but not night clubs).
- **A5 Hot food takeaways** - For the sale of hot food for consumption off the premises.

- **B1 Business** - Offices (other than those that fall within A2), research and development of products and processes, light industry appropriate in a residential area.
- **B2 General Industrial** - Use for industrial process other than one falling within class B1 (excluding incineration purposes, chemical treatment or landfill or hazardous waste).
- **B8 Storage or distribution** - This class includes open air storage.

- **C1 Hotels** - Hotels, boarding and guest houses where no significant element of care is provided (excludes hostels).
- **C2 Residential institutions** - Residential care homes, hospitals, nursing homes, boarding schools, residential colleges and training centres.
- **C2A Secure Residential Institution** - Use for a provision of secure residential accommodation, including use as a prison, young offenders institution, detention centre, secure training centre, custody centre, short term holding centre, secure hospital, secure local authority accommodation or use as a military barracks.

C3 Dwelling houses - this class is formed of 3 parts:

- **C3 (a):** covers use by a single person or a family (a couple whether married or not, a person related to one another with members of the family of one of the couple to be treated as members of the family of the other), an employer and certain domestic employees (such as an au pair, nanny, nurse, governess, servant, chauffeur, gardener, secretary and personal assistant), a carer and the person receiving the care and a foster parent and foster child.
- **C3 (b):** up to six people living together as a single household and receiving care e.g. supported housing schemes such as those for people with learning disabilities or mental health problems.
- **C3 (c):** allows for groups of people (up to six) living together as a single household. This allows for those groupings that do not fall within the C4 HMO definition, but which fell within the previous C3 use class, to be provided for i.e. a small religious community may fall into this section as could a homeowner who is living with a lodger.
- **C4 Houses in multiple occupation** - small shared houses occupied by between three and six unrelated individuals, as their only or main residence, who share basic amenities such as a kitchen or bathroom.
- **D1 Non-residential institutions** - Clinics, health centres, crèches, day nurseries, day centres, schools, art galleries (other than for sale or hire), museums, libraries, halls, places of worship, church halls, law court. Non-residential education and training centres.
- **D2 Assembly and leisure** - Cinemas, music and concert halls, bingo and dance halls (but not night clubs), swimming baths, skating rinks, gymnasiums or area for indoor or outdoor sports and recreations (except for motor sports, or where firearms are used).