



BUSINESS TENANCIES EXPLAINED

Kavita Rana, a solicitor at Edwards Duthie, on the tricky issue of business lease renewals

The Landlord and Tenant Act 1954 governs business tenancies and has been in force for over 60 years.

What does the Act mean in the world of commercial leases? The Act governs the rights and obligations of landlords and tenants of premises occupied for business purposes. At the end of the lease, a business tenant has the right to remain in occupation and can apply to the Court for the grant of a new lease, but the landlord's right to possession still exists under certain circumstances. That can result in compensation payable to the tenant (calculated on the number of years of occupation). Compensation will rarely cover the tenant's actual costs in having to relocate and will never cover any loss of goodwill built up where a tenant has been in occupation for some time.

Tenants traditionally wanted longer leases as these provide stability and to protect the value of goodwill. More recently, however, there has been a trend for shorter leases. The average length of term is around seven years. This is a decrease on average lease length since 2016. Given the current political and economic climate, the trend indicates a preference on the part of tenants to avoid long-term commitment and achieve greater flexibility.

Even with the trend towards shorter leases, tenants can still benefit under the Act, with the right to renewal of the lease providing greater security.



GETTY IMAGES/STOCKPHOTO/RIDORANZ

Tenants are entitled to a new lease, on similar terms to the previous lease, and at market rent.

Landlords still have the option to grant a lease excluded from the Act, which allows the lease to be terminated upon expiry of the term and therefore deprives the tenant of the right to renewal of the lease and to compensation. This provides the landlord with greater flexibility and a better negotiating position at the end of the lease.

Whilst a lease without the right to renewal is an attractive option for a landlord (particularly in London), such a decision must be considered carefully in the current market. Value should be placed on securing tenants with the best covenant strength, with or without the right to renewal of the lease.

ABOVE: Small businesses are increasingly preferring to take shorter leases

Business lease renewals can still be opposed in appropriate circumstances. The right to possession applies most commonly if substantial refurbishment or redevelopment is to be carried out or the landlord wishes to occupy the premises.

Seeking advice from the outset before entering in to a business lease is essential. Understand your rights in respect of security under the tenancy, and the methods of possession of the lease. Assess the commercial market. Know your legal rights. **1**

Get in touch
Edwards Duthie Solicitors
149 High Street,
Wanstead, E11 2RL
020 8514 9000
edwardsduthie.com