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Your handy guide to

Leasing an Industrial Unit



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We've written this guide to help you navigate the process of leasing an industrial unit, from finding a suitable space all the way through to moving in. Industrial buildings are simple but committing to a lease is full of legal and practical issues which need to be considered to ensure you end up with the right building for your business.



Further information on several of the topics in this guide can be found in the Blog section of our website:

industrials.co.uk/blog





01

Step 01

Finding the right space for your business

What do I need?

Some key questions you need to ask yourself before you start looking for an industrial or workshop property are:

- 1. How much space do I need?** Don't forget to think about the ratio of office to industrial space you require, as offices can be expensive to fit retrospectively.
- 2. How long do I need it for?** Your business is likely to change over time, so you need to think about how long you can commit to the building. Longer lease commitments often result in lower rents, so think about what the maximum time you can commit to, if you want to get the best possible deal.
- 3. What type of space do I need?** Industrial buildings vary in prominence, height and shape and different factors can attract higher or lower rents. For example, if you are planning on installing racking, a high building will be much better value as you only pay for the area used (not the height). An odd-shaped building might be cheaper to rent but may still work well for your business.
- 4. Do I need anything out of the ordinary?** Some businesses require additional floor loading or extra power capacity for heavy machinery. Others may require cranes for moving goods or high security to keep expensive stock safe. Another might require special planning or other approvals. These factors may significantly reduce the number of buildings available to you but being upfront about them may save you a lot of time.

- 5. What sort of access do I need?** It's important to consider things like how many doors you'll need, where you are going to park your cars, where will you unload deliveries, are there restricted hours for access, what about noise and smell (i.e. if you are in a residential area) or even whether there is a low bridge which may hinder large HGV deliveries. You should also think about when you are likely to have most of your vehicle movements and arrange an inspection for this time of day to check out local traffic conditions.
- 6. Timescales** – when do you need to move in? Some buildings are available immediately, but others may need works done first and some may need to be built to your specification. Plan in advance and make sure you notify the agent or landlord of your timescales. Allow plenty of time for sorting out the legal documentation and securing any necessary consents. If you leave everything too late, you will find yourself in a weak negotiating position.

What can I afford?

It's important to calculate the true cost of your property before you sign up to a lease. In addition to the rent, there are several other costs you should consider, including:

- 1. Rent deposits** – most landlords will require a rent deposit. Often this is equivalent to 3-6 months of rent and will be payable at the start of the lease along with the first month or quarter's rent.

- 2. Business rates** - the Government charges all commercial tenants business rates on properties they rent (think of it as Council Tax for commercial property). They are typically around 50% of the rent charged.



A full list of rateable values can be found here: www.gov.uk/topic/local-government/business-rates

If your rateable value is less than £15,000 per year, you may be eligible for small business rates relief or may not be liable for paying rates at all.



See here for more details: www.gov.uk/apply-for-business-rate-relief/small-business-rate-relief

- 3. VAT** – most landlords charge VAT on all goods and services, including rent and service charge payment. If you can't reclaim VAT, then you need to allow for this, but, even if you can, then you may have a cashflow shortfall while you recover any VAT paid.
- 4. Service or maintenance charge** – where properties have common parts, such as service yards, landscaping or security, which are to the benefit of all tenants, it is common for landlords to charge a service or maintenance charge as a contribution towards their upkeep and maintenance. The structure of the charges can vary, but, typically, they are either fixed or variable, with the latter meaning that the charge can differ from year to year.

- 5. Insurance** – the landlord will almost always insure the building on your behalf and recharge the cost of this to you. However, you will also need to take out your own insurance policies to cover things such as contents and public liability.
- 6. Repairs and maintenance** – depending upon what your lease says you may be liable for internal and external repairs of your building during the term of your lease. In the worst-case scenario this may include repairs for damage or deterioration which occurred before you moved in. Make sure you understand what you will be liable for to avoid unexpected bills.

Need help finding an industrial unit? Call 0800 1 22 3330 today and speak to a member of the Industrials team, they'll be happy to help.

Simon Ross
Head of Asset Management





7. **Dilapidations** – at the end of your lease you are usually required to return the unit ‘in good and substantial repair and condition’. This usually means no worse than when you moved in but, depending upon the condition when you took the premises, can mean putting it into a better condition than when you took the lease. The Royal Institution of Chartered Surveyors found that the average dilapidations settlement on industrial property is £7.27/sq ft, which is likely to be more than a year of rent for most occupiers. Some landlords offer a Schedule of Condition to help reduce this liability, while others (like Industrials) offer leases which exclude dilapidations at the end of the lease, so you can simply walk away.
8. **Waste and Utilities** – unless your landlord lets you know otherwise, you are likely to need to source your own gas, electricity, water and waste supplies. This works much like it does at home, so it’s worth getting quotes in advance.
9. **Capital allowances** – when fitting out your premises there are several things that attract tax relief through capital allowances, including heating, lighting, electrics, security, IT, carpets, furniture, racking, mezzanines, shelving, machinery, cranes and trade-related installations. The savings can be substantial, so it’s worth taking advice to see where you can save.
10. **Fees** – leases can be long legal documents, so legal fees can rack up if you are not prepared. You may also need a building surveyor to check out the premises or an engineer to help with your fit-out plans. Don’t forget to get some quotes in advance and include them in your budget.

Where should I look for my space?

There are three places you are most likely to find your perfect space:

1. **Online** - the internet is full of useful websites which bring all your options into one place. The big residential sites (rightmove.com, primelocation.com and zoopla.com) also have commercial portals, but there are other commercial property specialists such as Realla, EG Property Link, Novaloca and Move Hut which list lots of available properties.
2. **Letting Agents** – most commercial estate agents list their available properties on their websites (and on the above websites). Different agents will dominate different areas, so it’s often best to take a drive around the area you want to locate your business and see which local agency has the most boards up. Most agents are paid by the landlord, so, while they can be a useful free resource for market information, it’s important to remember that they might not be impartial.

3. **Direct to landlord** – an increasing number of landlords now market their own space and handle their own leasing negotiations. Information can often be better in these instances (as nobody knows their buildings better than the owner), but choice is likely to be more limited.

Once you have found some potential options, it’s worth picking up the phone or getting out on the road to see the properties first hand. A lot of marketing particulars are limited in detail, so it is important to get under the skin and ask lots of questions.

Drawing up a shortlist and agreeing a deal that works for you

A healthy shortlist will help you find the best space for you at the right price. The key things to consider when drawing up a list are:

1. **View some properties** – It’s important to see a few different properties to get some perspective on what is available. It will also give you an opportunity to quiz the owner or letting agent on some of the finer details, and get a feel for what kind of landlord they might be. Take lots of photos to help remember the important things like what utilities are available, or for future space planning and fit-out.
2. **Get some proposals** – there is often a difference between the quoting rent and the rent at which a deal can be struck. Ask for a proposal you can consider and make sure it covers all the key cost areas.
3. **Read between the lines** – how your prospective landlord behaves leading up to the letting can be a good guide to your future relationship with them. Are they responsive? Is the building well looked after? Do they speak

to you directly or always communicate via a third party? A bad leasing experience can be the early warning sign for a troubled future relationship. It’s always worth speaking to other tenants at the property to see what they think of the landlord or the buildings.

4. **Ask the right questions** – there are several lease variables which you will need to agree as part of a letting. Key ones to consider include:
 - How long is the lease?
 - Does the lease include any break options?
 - What is the notice period to terminate the lease?
 - Am I liable for external repairs and maintenance?
 - What does the service/maintenance charge include? How much has it been in previous years?
 - What restrictions are there on sub-lettings, assignments, alterations, use or access?
 - In what condition will I need to return the property at the end of the lease?
 - Is my lease inside or outside the protections of the Landlord & Tenant Act 1954?
 - How often do I pay my rent and will it increase in future?
 - When can I move in?
 - Can I store things outside my unit?
 - Do I have designated parking or yard areas?
 - Who pays for utilities and waste disposal?
 - Will the landlord provide lighting or heating equipment?
 - What works will the landlord undertake prior to me moving in?
5. **Negotiate** – an ordinary letting has many areas which are up for negotiation aside from the rent and lease term. Depending on how good the initial deal you have struck is, there may be other areas you can improve upon. Think about seeking additional certainty on variable costs and unknowns such as market rent reviews, dilapidations or service charges, or add additional flexibility such as lease breaks or options to renew at the lease end.





02

Step 02

Getting your lease in place

The following section runs through the different stages of the leasing process. It is not an exhaustive list, and different landlords and lease structures will result in variations to this process. You may be able to avoid some parts or need to add in others. We have put them in an approximate order, but some items may run concurrently.

- 1. Agreeing Heads of Terms (HOTs)** – the HOTs should include all the details of your lease and reflect everything you have agreed up to this point. Anything which is missing stands a chance of not making it into your lease, and, hence, cannot be relied upon in future. If the landlord or their representative has promised to do something either before or during your lease, then you should make sure it's included in the HOTs. Verbal promises are rarely binding, especially if your landlord changes in future and you find yourself dealing with someone completely different.
- 2. Instructing solicitors** – you may or may not need to instruct a solicitor to help you, depending upon the complexity of the agreement you are signing. However, if in doubt, always take professional advice. Once your lease is signed you can't change it, and a court is likely to enforce the content regardless of whether you understood what you were signing up to or not.
- 3. Due diligence** – now is the time to dot the i's and cross the t's on the building. The landlord should be able to answer any reasonable queries you may have about

the property, provide a copy of the Energy Performance Certificate (which, by law, must be E or higher) or provide proof that they are the owner and are able to let it to you.

- 4. Completing "Know Your Customer" checks** – at this stage you may be asked to provide information to confirm your identity, such as a passport, utility bill or company financials.
- 5. Setting up Direct Debits or standing orders** – some landlords require the rent to be paid by direct debit or standing order. Very few landlords accept payment in cash. If you have a new business, you will need bank accounts set up and ready to go.
- 6. Transferring funds** – before the lease completes you will need to transfer any advance rent or rent deposits which are payable. If the landlord is not reputable, then it may be prudent to transfer these to a lawyer registered with the Law Society to give you protection in the event of the lease not completing.
- 7. Signing documents** – the lease or licence will need to be signed before you can move in, as will any other documents relating to it, such as plans, schedules of condition or licences for alterations. Make sure your signatories are available when you need them.
- 8. Releasing keys** – once all the above is done, you will receive confirmation that the lease has completed. You should then receive the keys for your new property and can get back to doing the day job!



03

Step 03

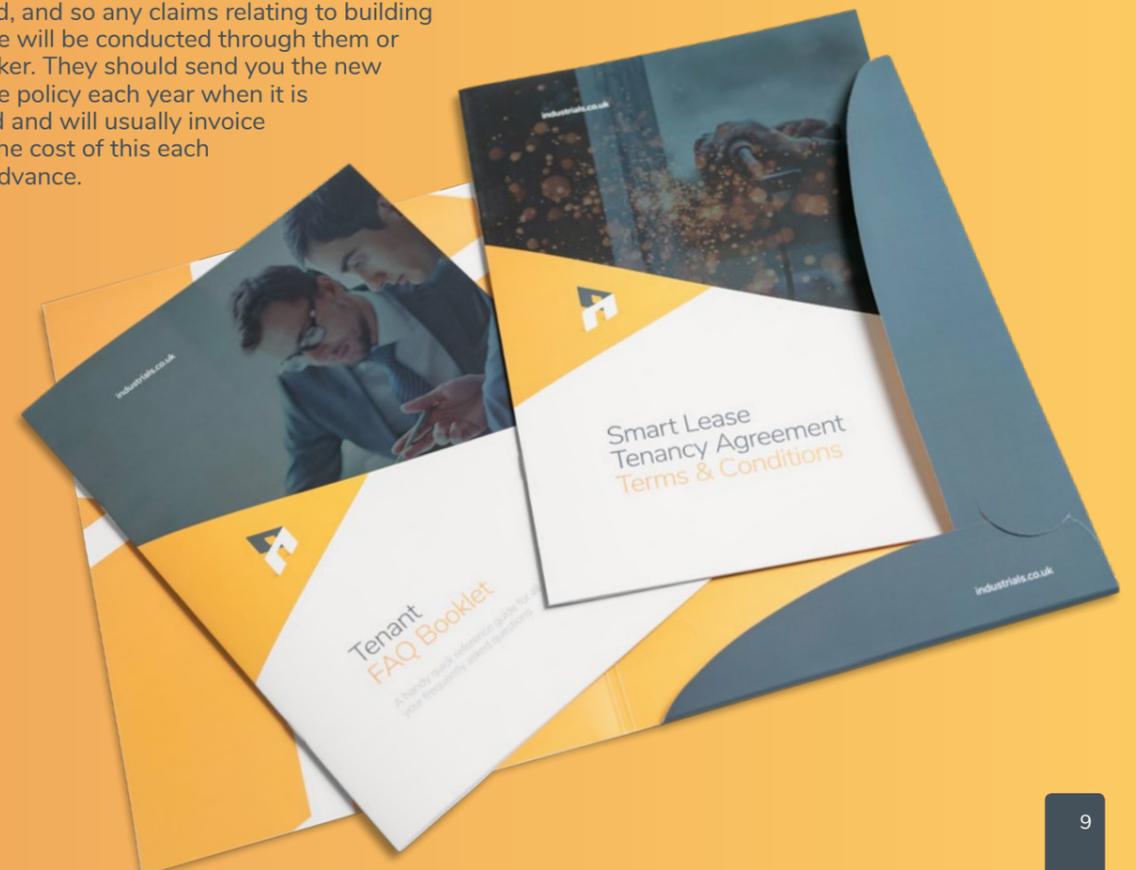
Living with your lease

Once you are in your industrial property you can focus on running your business. The law even allows for the right to 'quiet enjoyment', meaning that the landlord needs to leave you alone. However, you will still have some admin to sort and some decisions to make. The following list covers some of the key ones to consider:

What should the landlord provide?

The landlord will typically ensure that the building is insured, and so any claims relating to building insurance will be conducted through them or their broker. They should send you the new insurance policy each year when it is reviewed and will usually invoice you for the cost of this each year in advance.

If you have a service or maintenance charge, then this will also be managed by the landlord, and they will be responsible for maintaining the common areas (and anything else covered by the service or maintenance charge, such as security systems). If the charge is variable, then you should also receive an annual statement, confirming how much has been spent and whether you owe additional sums or are owed a refund for the year.



Guide to leasing an industrial unit

What am I responsible for?

You will usually be responsible for sourcing your own contents insurance, public liability insurance and other regulatory requirements like health & safety, asbestos, etc. You are also likely to be responsible for engaging your own utilities suppliers and for paying your business rates.

Depending upon the terms of your lease you are likely to be responsible for internal maintenance and repairs and, potentially, also external maintenance and repairs, if you have a 'Full Repairing and Insuring' (FRI) lease. This includes anything which goes wrong from the moment you have completed your lease, such as roof leaks or boiler breakdowns. It is important that you understand the repairing obligations in your lease, so you don't pay for items unnecessarily or get any nasty surprises later.

What do I do when I want to leave?

To end your lease you will need to exercise a break option or leave upon lease expiry. Exercising a break option usually requires serving notice upon the landlord in a certain timeframe and may be subject to several conditions, so plan this well in advance. To leave at the end of your lease it is not usual to need to serve notice, but may be polite and/or practical to do so. Once you are leaving you need to think about your repairing

obligations and whether you will need to settle dilapidations with the landlord. You also need to think about terminating any other supplies you may have, such as utilities, waste or cleaning.

What if I can't pay my rent?

From time to time businesses can have cash flow problems. It is always best to speak to your landlord in advance of the rent payment date if you are concerned that you will not be able to make a payment. If you do not pay your rent, you are at risk of having your lease terminated and being evicted. The landlord may also send in bailiffs, which can be distressing for staff and usually result in additional charges. If consulted, the landlord may be willing to change payment terms or offer a payment plan, which may help ease short term cash flow issues.

What if I need more or less space?

Some landlords will be willing to move you into larger or smaller spaces during your lease, but others may not be able to accommodate or consider this. It is important that your lease gives you the flexibility you need to grow your business, as, once it is signed, it is much harder to change. If you have concerns about the size of your premises, it is always advisable to speak to your landlord in the first instance to see what they may be able to do to help.

Notes



For more helpful articles, hints, tips and information on taking a lease, please visit our Blog or FAQ sections.

You will also find a full list of all our available units and information on each of our properties:

 industrials.co.uk

 [linkedin.com/showcase/industrialsuk](https://www.linkedin.com/showcase/industrialsuk)





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