The basics of a commercial lease

A practical guide for business tenants in England and Wales

A commercial lease is a legally binding agreement giving a tenant the right to occupy premises for business use. It sets out the rent, the length of occupation and the responsibilities of both landlord and tenant.

Before signing, you need to understand the financial commitment, what you can do at the property and how the agreement can end. This guide explains the main points for business tenants in England and Wales. Different rules apply in Scotland and Northern Ireland.

1. Agree the main terms before legal drafting

Negotiations usually begin with heads of terms: a written summary covering the premises, rent, lease length, incentives and other key points. These are normally marked “subject to contract”. Your solicitor should explain whether any provisions are intended to be binding.

Make sure the proposed tenant is identified correctly. A lease taken personally creates different exposure from one granted to a limited company, and a personal guarantee can create separate obligations for a director.

2. Know exactly what you are renting

The lease description and plan identify the premises. Confirm whether offices, yards, parking spaces and storage areas are included, and what rights you have to use shared entrances, roads or facilities.

Check the permitted-use clause alongside the planning position. Landlord consent does not replace planning permission, and planning permission does not override the lease. Alterations, signage and specialist equipment may require separate approval.

3. Understand the rent and other costs

Rent may be payable monthly or quarterly, often in advance. Confirm the payment dates, any rent-free period and whether VAT applies. Commercial rent is commonly exempt from VAT, but an option to tax can make it taxable.

Your budget may also need to cover business rates, service charges, insurance contributions, utilities and repairs. Rent-free periods do not automatically waive these payments. Ask for a cost breakdown before committing.

Your financial commitments

4. Check deposits and guarantees

There is no universal one-month limit for a commercial rent deposit. The amount is negotiated and may reflect the business, the premises and the proposed lease.

A rent deposit deed should explain when the landlord can draw on the money, whether you must top it up and when it will be released. Do not assume the deposit will be returned immediately when you leave.

A guarantor agrees to meet specified obligations if the tenant does not. Ask your solicitor about the scope, duration and release provisions before giving a personal guarantee.

5. Review lease length, rent reviews and breaks

The lease term sets the contractual period of occupation. Rent reviews may change what you pay during that period, using a method stated in the agreement. Read the review provisions rather than assuming the initial rent applies throughout.

A break clause allows the tenant, landlord or both to end the lease early on agreed terms. Notice periods and conditions vary. Missing a deadline or failing to satisfy a condition can make a break ineffective.

A business downturn does not automatically release you from the lease. If flexibility matters, discuss it before signing and diarise the relevant dates once the agreement is completed.

6. Establish repair and insurance responsibilities

The lease determines how repair costs are allocated. Structural repairs are not automatically the landlord’s responsibility. Under a full repairing and insuring (FRI) arrangement, the tenant typically bears extensive repair and insurance costs, directly or through contributions.

A survey can identify existing defects. A schedule of condition may limit your repairing obligations if the lease is drafted to give it that effect.

Confirm who arranges buildings insurance and how the premium is recovered. The landlord’s policy should not be assumed to cover your stock, equipment, business interruption or liability risks.

Managing change and moving on

7. Understand service charges and alterations

A service charge contributes to services provided under the lease, such as shared maintenance, lighting or estate management. Ask what is included, how your share is calculated and whether any cap or exclusions apply.

Request the current budget, recent expenditure information and details of planned major works. A budget is not necessarily a fixed annual bill: the agreement may allow a balancing payment after actual costs are known.

Before fitting out, agree the approval process, responsibility for the work and any requirement to remove alterations later. Record landlord contributions and other incentives in the legal documents.

8. Know the difference between assignment and subletting

Assignment transfers the lease to another tenant. It is subject to the lease and applicable law, and landlord consent may be required. You may also be asked to guarantee the incoming tenant’s performance through an authorised guarantee agreement.

Subletting creates a separate tenancy beneath your own lease. It does not normally release you from your obligations to the head landlord, including paying rent even if your subtenant fails to pay you.

Check restrictions on assignment, subletting and sharing occupation before relying on any of them as a future option.

9. Plan for renewal and leaving the premises

Many business tenancies in England and Wales have renewal protection under Part II of the Landlord and Tenant Act 1954. This is often called security of tenure. A landlord can oppose renewal on specified statutory grounds.

A lease can be contracted out of that protection if the required procedure is followed. Check whether your agreement is inside or outside the Act; the notice and renewal position will differ.

Leaving early may involve a valid break, an agreed surrender or an assignment. Subletting does not end your lease. At departure, repair and reinstatement liabilities can lead to a dilapidations claim. Seek advice well before the proposed leaving date.

Before you sign

Before signing: your commercial lease checklist

Ask your solicitor or surveyor to confirm the points below and explain any terms you do not understand.

- The correct tenant, premises plan and access rights.
- Permitted activities, planning position and alteration consents.
- Rent, VAT, payment dates and rent review provisions.
- Service charges, insurance contributions and other outgoings.
- Deposit, guarantee obligations and release conditions.
- Repair responsibilities and any schedule of condition.
- Lease length, break dates and notice requirements.
- Assignment, subletting and sharing restrictions.
- Renewal rights and end-of-lease obligations.

What if a commercial lease dispute arises?

Raise the issue in writing and keep records. A local council does not generally decide private commercial lease disputes. Depending on the issue and agreement, resolution may involve negotiation, mediation, an expert, arbitration or the courts. Obtain advice before withholding rent or taking action that could breach the lease.

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General information for England and Wales, updated November 2026. This guide is not a substitute for advice on your proposed lease. Ask a commercial property solicitor and, where appropriate, a surveyor or tax adviser to review your position.

Further reading

RICS: Code for leasing business premises

GOV.UK: Tenant responsibilities

GOV.UK: Ending a commercial lease early

GOV.UK: Renewing and ending business leases

HMRC: VAT on land and property