

BEFORE SIGNING A LEASE

WHAT TO LOOK FOR

BY BLACKLER SMITH & CO. CHARTERED ACCOUNTANTS AND BUSINESS ADVISERS

If you are in business, or are about to go into business, you could be involved in taking on a lease. However, a hasty sign-up could endanger your future financial security.

Negotiating the right lease can be a significant step in your business. Signing up for rent of \$1000 per week is a commitment in itself, but over a six year term it's even more significant, totalling \$312,000. If you have personally guaranteed the lease it's a huge exposure. If your business failed, the lease commitment could send you personally broke or you could even lose your home.

Be sure you will be able to afford the total commitment before you sign and try to avoid letting your spouse or partner sign a personal guarantee as well. If a guarantee is required and you can't negotiate your way around it then limit it to say three, or six months' rent.

UNDERSTANDING WHAT YOUR LEASE COVERS IS CRITICAL. LOOK FOR AND WORK THROUGH THE FOLLOWING:

- The term of the lease – is it for one, three, six or nine years?
- Does it have a Right of Renewal and if so when, and for how long?
- When are the rent reviews due and is there a formula around this – is it CPI (Consumer Price Index), or a market adjustment?
- What is the procedure for exercising your renewal of the lease or for negotiating the rent increase?
- Is the lease assignable – can you sell your business and pass the lease with it?
- Is it a gross or net lease – who pays the outgoings?
- Does the lease state whom has responsibility for exterior maintenance?
- Who pays for the insurance? Is it an indemnity or replacement arrangement?
- Whose responsibility is it for common areas and ground maintenance?
- Does the lease have an arbitration clause to resolve disputes?

YOUR INVESTMENT IN LEASEHOLD IMPROVEMENTS

On a termination of the lease, the landlord may retain your fit-out, or they might invoke a make-good clause meaning the cost may be on you to remove, redecorate and return the space to its condition when you took over. This can be very onerous and can create a significant expense when you thought you were in the clear.

TAX IMPLICATIONS OF LEASE INDUCEMENTS/INCENTIVES

Often there are significant offerings made to entice a sign-up – make sure you have your chartered accountant check for any tax implications to ensure there are no surprises.

LEASE SUITABILITY AND YOUR LANDLORD

Have you considered all aspects of a particular site in terms of zoning, council planning, parking, accessibility, your competitors and neighbours? Developing a good relationship with your landlord could make resolving any issues easier.



The Blackler Smith & Co Team. Back (left to right): Christina Sole, Ben Blackler, Susan Little. Front (left to right): Kerry Blackler, Blair Smith and Nick Psarov.

DO YOUR HOMEWORK.

There are many issues which could impact on your business, your life and your family. Don't make the mistake of not taking sound professional advice. Consult your **chartered accountant and lawyer** before you commit to any lease.

Call Ben or Blair of Blackler Smith & Co. on 555 9090 for an obligation free chat regarding leases, getting into business and tax structures.

Blackler Smith & Co
Chartered Accountants and Business Advisers

