

JARGON BUSTER

Ever wondered what all the acronyms
and legal terms mean in the commercial
property world?

Look no further than this helpful guide

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AGA (Authorised Guarantee Agreement)

A guarantee by an outgoing tenant to a landlord that the incoming tenant will adhere to obligations in the lease, such as paying rent. This keeps the original tenant liable should the new lessee default.

Alienation

The right of a tenant to dispose of a lease if they no longer want it. Usually a lease will permit assignment (completely handing over a lease to a third party) or subletting, but with conditions.

Assignment

The process of handing over a lease to a tenant after a landlord has checked the tenant's financial references. At the transfer of the lease three documents are required: the License to Assign; an Authorised Guarantee Agreement; and a Deed of Assignment.

Break Clause

A tenant's right to end a lease early. This option can be complicated.

Brownfield Land

Land that has been previously developed.

Business Rates

This is what businesses must pay to cover the costs of local authority services and is based on the rateable value of a property on a set date (the value is reassessed every five years).

Capital Value

The value of a property, separate from its annual or rental value.

Change Of Use & Permitted Use

You may wish to change the type of use (e.g., retail to restaurant), in which case you would need to seek a Change Of Use from the local authority. The landlord would have to agree too.

Covenants

Covenants form part of the tenancy agreement and include any duties/promises made by either landlord or tenant; these can range from how the rent is paid to keeping the premises in good condition.

Demised Premises

Properties subject to a lease.

Deposits

Money a tenant pays to the landlord up front and is returned at the end of a contract provided the tenant has no liabilities to cover. Can also be known as a bond.

Dilapidations

A document made by a landlord and a tenant outlining the damages/wear and tear to a property.

Equivalent Yield

The expected income return of a property, based on the value at the time the return is received.

Exceptions & Reservations

This relates to parts of a property that the landlord may keep back for themselves.

Forfeiture

This is when the landlord has the right to terminate the lease should the tenant not comply with the lease.

Freehold

Full ownership of land or property with no time limitations.

FRI Lease (Full Repairing & Insuring)

This is when all costs of repairs/insurance for the property are owned by the tenant.

GIA (Gross Internal Area)

The total size of the internal space of the property.

Greenfield Land

Land that is not developed.

Ground Lease

Lease of the land to an inhabitant who expands on it. This kind of lease isolates responsibility of the land from the buildings and improvements made to the land.

Guarantee

An agreement made where someone will pick up the tenant's debts or duties should the tenant fail to do so.

Guarantor or Surety

Person or persons who give a guarantee.

Head & Superior Landlord

The landlord of a landlord (see freehold).

Headline Rent

The rent that is paid after rent-free periods/concessions have expired. For example, if a landlord wants to achieve a rent the market doesn't reflect, they may allow a tenant a year's rent-free period to entice them into the property, followed by four consecutive years at the market rent.

Head-lease

Main lease that applies to multiple leaseholds contained in one building. One covenant, for example, may be that no pets are allowed.

Heads Of Terms

A document detailing a summary of the key points which are to be included in a lease in order to help a solicitor draft the final contract.

Heredity

Any property subject to rates, or one that may become subject to rates.

Indexation

The adjusting of rent against a specific index, such as the Retail Price Index.

Initial Yield - Gross

Yield (profit) is calculated by dividing the property's annual rent by the property value shown as a percentage. 'Initial' refers to the result immediately after the purchase of a building and 'gross' doesn't allow for other costs such as legal, agents and valuation fees, bank fees and Stamp Duty.

Initial Yield - Net

The yield/profit available to the purchaser after fees and operational costs have been factored in. A net yield will show whether a purchaser is making a profit or not.

Investment Yield

The annual return on an investment which is shown as a percentage of the capital value.

Landlord

The person who owns a building or land and rents it to a tenant. They have the right to enforce the terms of the lease.

Landlord and Tenant Act 1954

A law that gives a tenant the right to renew a lease on the same terms as the existing one. It is often referred to as the '54 Act' and a lease may be referred to as being 'inside' or 'outside' the act.

Land Registry

A lease where a tenant is responsible for internal repair of the property, such as ceilings and carpets, and the landlord maintains the building structurally and externally, passing on part of the cost to the tenant through a service charge.

Lease

A contract between a landlord and a tenant which outlines the rules by which a tenant is permitted to occupy a property.

Licence

This gives you the right to occupy a premises, however, a licence usually grants less rights than a lease.

Licence To Alter

This is when a landlord gives approval for a tenant to carry out works to a property so it's better adapted for their use. This adjustment can be called 'fit-out' or 'Category B' and the license is usually compiled by the landlord's solicitors but paid for by the tenant.

Managed Office Space

Sometimes one building can host numerous office spaces which are fully managed by outside companies and let on flexible terms, such as short rent periods and low deposits.

Mezzanine Floor

If an office has enough height, then a mezzanine floor can be installed post construction to provide additional storage or office space.

NIA (Net Internal Area)

The usable space within the perimeter walls of a property, excluding, for example, toilets and dividing walls.

Premises

The property.

Premium

Where the value in the land can be paid upfront as a capital payment or premium and thereby, usually, reducing the amount of rent a tenant pays.

Purchaser's Costs

These will include such things as Stamp Duty Land Tax, legal and agency fees, and survey charges.

Rack Rent

The best market rent available at the time.

Raised Floor

Usually sits 150-300mm above the structural floor slab for power outlets and other connection points to be accommodated underneath.

Real Estate Investment Trust (REIT)

A property investment company that owns and manages buildings on behalf of shareholders who then reap the profits from the investments.

Rent

The amount a tenant regularly pays to a landlord to occupy a property. 'Inclusive' rent covers service charges, tax and other costs.

Rent Review

An opportunity to vary the rent after a period of time, to be agreed with the landlord.

Repair

The acceptable condition of a property that tenants are required to maintain. Variations are 'good repair', 'substantial repair' and 'good and substantial repair'. Ultimately this means that if something in the property is broken, a tenant must fix it.

Restrictive Covenant

This will be a clause in the lease which will restrict the tenant in some way, for example only a particular type of trade may be carried out in a shop lease.

Reverse premium

This is a payment/benefit made in lieu by a landlord to a prospective tenant so as to entice them into a lease agreement at a rent that is above the market value.

Reversionary Yield

The yield a buyer is likely to receive on the purchase price after a rent increase.

Schedule Of Condition

A document drawn up at the beginning and end of a lease that outlines the state of repair of a property. Often contains photographic evidence.

Security Of Tenure

A tenant's right to renew a lease when it runs out, on similar terms as the existing lease.

Service Charge

An amount of money which is paid by the tenant to the landlord for management and upkeep of the building or estate. This can include security, cleaning the outside of the building, lift maintenance etc.

Sub-tenant

You are a sub-tenant if your landlord is not the freehold owner of the property.

Stamp Duty Land Tax (SDLT)

This is a tax that the government impose based on the purchase price of a property. For commercial properties less than £150,000 there is no SDLT. After that, it increases to 1% and 3% after £100,000 and £250,000 increments respectively, then to 4% for properties sold for more than £500,000.

Subletting

A tenant can let part or all of a building to someone else to occupy if the lease permits it. The head lessee remains responsible to the landlord for payments, and the tenant becomes the sub-tenant.

Tenancy Agreement

This is a lease.

Tenant

The person who rents the property from the landlord. They can also be known as 'lessee' or 'leaseholder'.

Term

The period of time you rent a property. Also known as 'lease period'.

Termination

When the lease is brought to an end.

Turnkey

This is if a building needs to be occupied straight away - a fit-out will be done that includes basic furniture and other business needs.

Use Classes

This is the categories land and buildings are organised into, as outlined by the Town & Country Planning Order 1987. Classes dictate what properties can be used for without seeking further planning permission (see our Use Classes guide).

Zoning / ITZA (In Terms of Zone A)

This is a way of dividing up a property so that it can be measured for valuation purposes. Zoning acknowledges that some areas will be more valuable than others, such as the front part of a shop etc.

Zone A (ITZA)

The total area used to calculate the rent, taking all of the zones together. This is called ITZA.

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