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ARTICLE

Cutting Costs: Commercial Break Clauses

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The article discusses the complexities and legal challenges associated with exercising break clauses in commercial leases, particularly in the context of the UK's current economic climate. With anticipated tax hikes and rising costs, businesses are looking for ways to cut expenses, such as terminating leases early using break clauses.

Break clauses allow tenants or landlords to end a lease before its natural expiration. However, these clauses come with strict conditions that must be meticulously followed. Courts have historically ruled against parties that fail to meet these conditions, making it crucial for break clauses to be clearly negotiated and understood.

Key points include:

- Notices must be in writing and served by post, not email, with enough time allocated for postal delivery.
- Timing is critical, as missing the deadline can nullify the break option.
- Tenants must often return the premises to the landlord with vacant possession, i.e., free from personal items and fixtures.
- A break premium, a fixed sum payable upon exercising the break, must be paid on time.
- Some leases require all sums due, including rent, service charges and insurance, to be paid in full, which can complicate compliance.
- The Code for Leasing Business Premises suggests tenant break clauses should only require basic rent payment and vacating the premises.

The article concludes that navigating break clauses is complex and can lead to costly mistakes if not handled correctly, emphasizing the importance of compliance with all stipulated conditions.

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