

Creating Value from Lease Regears



An underlying fundamental business tenet is that a good deal is one that benefits both parties and the opportunity to re-gear a lease has the potential to fulfil this criteria.

A recession throws into sharp focus a number of lease issues which, with flexibility on both sides can form the basis of negotiations to re-structure the agreement between landlord and tenant.

Problems

Tenants in all sectors are having to manage their businesses with reduced income and, in extreme circumstances, may find themselves having to consider placing their business into administration. Lease obligations entered into willingly years previously or even in the recent past can prove to be the final straw.

In the current economic environment the last thing a landlord wants is his investment vacant; not only failing to produce an income but also incurring service charge and empty rates.

Opportunities

Re-gearing is a good way of helping both the landlord and tenant achieve their goals. The flexibility of re-gearing means there are many ways to tailor the process to specific circumstances.

For the landlord, a willingness to accept a reduced rent can be traded for the tenant committing to a longer lease duration and/or forfeiting break options. The landlord gains additional security and enhances the capital value of his asset; a win – win situation.

Tenants could negotiate benefits such as realigning break clauses to match their own business targets; the introduction of a rent holiday or capital payment; flexibility to sub-let. No lease terms should be considered sacrosanct.

Negotiations can occur outside of a lease event, however events such as rent review and break dates are ideal opportunities to explore the possibilities of a lease re-gear. If the tenant intends to stay in the premises beyond the current lease break/ expiry date, and the lease break or expiry is within the next three years then re-gearing the lease is a valuable exercise.

Why GVA Grimley?

GVA Grimley's lease specialists have extensive experience (an average 15

years per fee earner) and an outstanding track record in the resolution of lease negotiations for both sides, repeatedly achieving the optimum outcome for our clients. Our experts are based in ten regional offices working closely with one another within a national structure. Our team incorporates sector-specific personnel looking at industrial, office, retail, leisure and educational property.

Whether taking the lead in the negotiation process, identifying opportunities for extracting best value or formulating longterm rental strategies, our advice is based on superb market knowledge and a detailed appreciation of property trends.

Our Experience

Confidential client, Midtown, London

GVA Grimley acted for a landlord who owns a significant portfolio of properties in the Midtown area of London, WC2. Four of these properties are occupied by the same tenant under the terms of separate leases. Two of these buildings were subject to rent review in December 2007. The leases had different expiry dates. The rent reviews were negotiated with the tenant and eventually referred to arbitration. Against the background of a reference to arbitration, the lease terms on all four buildings were renegotiated.

The lease term of all four buildings were extended for a further period of between 8 and 10 years, significantly increasing the value of the landlord's interest as a result of this extended term. Existing tenant's break clauses were removed from the leases, the rents agreed on all four buildings were market rents removing the problems associated with two of the buildings being over-rented and giving a real prospect of uplift at future rent reviews.

Crown Paints Limited, nationwide

GVA Grimley are retained by Crown Paints Limited to advise on their 110 Crown Decorating Centres nationwide. We have undertaken a review of the entire portfolio, and have identified a number of units where Crown want to remain in occupation, and there is the potential to significantly benefit Crown by re-gearing the existing leases. We have negotiated advantageous terms for Crown including considerable rent free periods. The value added by undertaking this exercise now, rather than waiting for each lease to expire at the contractual termination date, is that the tenant has been able to take advantage of the current market conditions.



Environment Agency, Tyneside House, Newcastle upon Tyne

Tyneside House is a 26,000 sq ft office building with adjacent 7,000 sq ft boathouse on the banks of the River Tyne. The premises were occupied from new by our client The Environment Agency under the terms of a 25 year lease with effect from 1995 with provision for five yearly reviews. The lease contained the flexibility of a tenant option to break in 2010.

We achieved a settlement of the review at a favourable rate in comparison with the established tone within Newcastle Business Park and established that the tenant's business plans confirmed continued occupation beyond 2010 given the special suitability of the building on the river bank with boathouse facilities. A substantial rent free period in lieu of a capital payment in return for agreeing to relinquish the tenant's break option was also negotiated.

Clarks, Cornwall Street, Plymouth

GVA Grimley recently represented Clarks, the high street footwear retailer, in negotiations with their landlord Aviva Investors to agree a new 10 year reversionary lease with a 5th year rent review at a passing rent of £121,770 pa, including a 12 month rent free period. This regear comes 18 months before the current lease expires, ensuring the tenant can benefit from the current market conditions. In similar circumstances, but with 2 ½ years prior to the lease expiry, we are acting for Clarks in High Street Exeter where discussions continue.

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