



Lease Restructuring

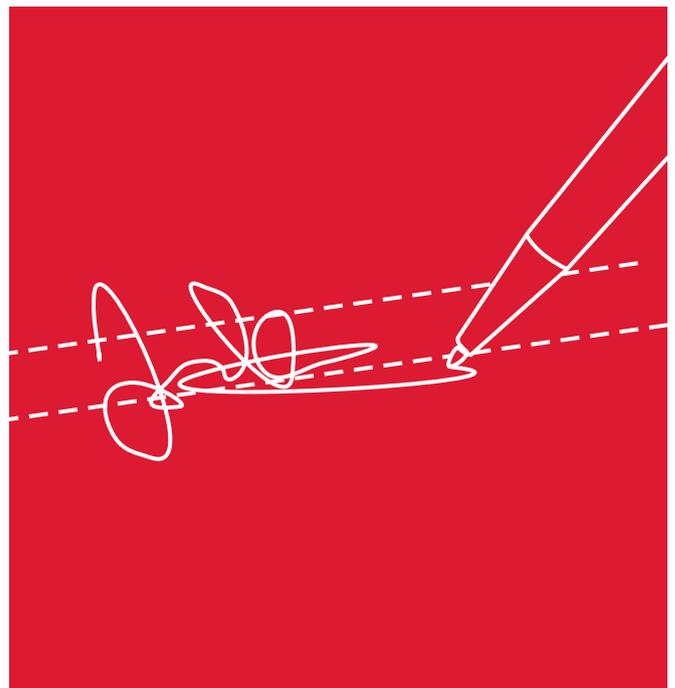
Renegotiating leases

Changes to the law and uncertain economic conditions have presented opportunities for occupiers of real estate to improve their occupational lease terms. Proactively approaching a landlord prior to a key lease event can enable the strategic renegotiation of terms. Tenants can effectively trade continued occupation in return for a lower rent, more flexible and less onerous lease covenants or other financial incentives.

There are several reasons why lease renegotiations have become increasingly common. With weaker economic conditions landlords want to avoid tenants vacating premises as there is the real prospect of lengthy voids, expensive holding costs, and any new tenant is likely to demand extensive incentives. Landlords are also now liable for rates on empty buildings – a particular issue for industrial buildings which were previously exempt from empty rates charges.

Recent changes to the UK law have also favoured occupiers. Tenants are now able to walk away from a property on the contractual lease expiry date without giving the landlord advance notice.

These factors taken together have placed tenants in a stronger negotiating position. The message is clear: now is a good time to tactically consider your short to medium term property options and accommodation strategy to reduce costs and mitigate risk.



“LSH has maximised value from our estate by leveraging our covenant strength through changing market conditions. Their market knowledge and technical expertise is invaluable to our success”

Nick O’Byrne, Head of Property and Building Services at Camelot Group plc

What are the opportunities?

Lease regearing:

- To reduce passing rent
- Secure a rent free period
- Raise a capital receipt
- To fund improvement works

Lease restructuring:

- To secure future options such as break options
- Forward agreement on dilapidations liability
- Amendment of service charge provisions
- Negotiate more flexible lease clauses and provisions

Lease purchase:

- Buy the freehold and undertake a sale and leaseback on improved lease terms

When is the best time?

Lease regearing:

- Leases containing break options
- Lease expiry within 12 to 36 months
- Where the business is able to commit to occupation for say 5 years

Lease restructuring:

- Where continuity of occupation can be traded for downstream risk
- Where the longer term business strategy is known yet occupation lease terms are mis-aligned
- During / following a merger integration or business takeover
- Change of landlord

Lease purchase:

- Where there is access to cheaper capital or debt compared with servicing the existing lease payments

Why choose LSH?

- One of the UK's largest lease advisory teams
- In-depth market knowledge and intelligence derived from close proximity to local markets
- Close collaboration between lease advisory and agency teams
- Strategic business bias towards working with UK based corporate occupier clients
- Experience of working across diverse business sectors from financial, telecommunications, retail, logistics and media companies to infrastructure and train operating companies
- National Property Database collects data on all transactions and lease agreements serving as a comprehensive source of data

Rent reviews and lease renewals - evolving tactics

In a market where there are few transactions occurring there is a very interesting interplay between the world of hypothetical rent review assumptions and market reality. Questions that immediately arise include:

1. Can you assume a 'hypothetical tenant' when for some properties there is no prospect of a tenant in the foreseeable future?
2. Is evidence of no transactions evidence in itself? How appropriate or justifiable are historic transactions?
3. With changes in empty property rate relief many landlords are agreeing to flexible occupations with reduced rents to avoid rates and service charge costs. How do such arrangements affect analysis?
4. Where transactions fall through can these be taken into account?

5. How can you use deals involving incentives and re-gear leases to your benefit as comparable evidence?
6. Traditionally, CRE advisors struggled to justify significant adjustments for restrictive lease covenants, physical factors such as frontage to depth ratios or allowances for high service charges. However, with much more property available to the hypothetical tenant is there a valid argument that this impact is more profound?
7. In poor markets there is often a 'flight to quality'. Consequently, is there an argument that in a market characterised by low demand and oversupply, the differential in rents is even greater between good quality energy efficient buildings and older buildings?

These questions clearly highlight that there is a need for specialist expertise and market knowledge if occupational costs are to be minimised through effective negotiation.

Our clients

Below are several illustrative examples of the type of value we have successfully delivered to some of our clients:

British Broadcasting Corporation

LSH has undertaken a number of key lease restructuring projects for BBC over the past few years. In a recent case on a large office building in London, LSH secured a short term lease extension while negotiating a total dilapidations 'write-off' despite the landlord's preference for a new long term letting. Elsewhere on another major BBC long leasehold property, which had unusual rent review provisions contained in the lease and involved complicated points of law, LSH successfully negotiated a rental saving of over £16m for BBC from the landlord. Subsequently an offer of £8.5m was secured for the leasehold interest from a third party.

AXA

LSH has worked closely with AXA to develop an estates strategy, which aligns tenure with business planning and minimises IAS 37 provisions for surplus property. Examples of recent success include the removal of an AXA break option in return for a reverse premium equivalent to two years rent. In other negotiations, LSH secured the removal of sublease break options without incurring a capital or rental payment to the subtenant. AXA benchmarks rental costs against its industry peers using IPD sourced data and since LSH was appointed rental settlements have consistently outperformed market benchmarks by 10 - 20%.

Atkins

LSH reviewed the Atkins portfolio to identify opportunities for creating value. For example, LSH identified an opportunity to align Atkins' space requirements through a property held under a sublease. Following the trigger of a headlease break option, LSH negotiated a 30 month lease extension and secured an 18 month rent free period.

Grouprama

LSH recently acted on behalf of Grouprama in respect of a large office building located in a northern provincial city. In this instance, LSH was able to negotiate a 18 month rent free period in lieu of Grouprama extending their lease commitment for a further five years and agreeing a fairly nominal increase in rent thereby saving £675,000.

"Lambert Smith Hampton has been a long standing, professional property advisor... providing crucial strategic advice on all aspects of our portfolio. They are very commercially orientated and very diligent in their approach to delivery and advice. I would have no hesitation in recommending LSH"

Stuart Parker, Director of Property National Express Group

About us

At Lambert Smith Hampton, our clients mean a lot to us. Our success and reputation depends on how we contribute to their success and reputation. So why do our clients choose us? There are many reasons, but chief amongst them is that we're unashamedly and single-mindedly focused on the UK and Ireland. This means that we're on the ground, in the thick of it, at the heart of things. We're not here, there and everywhere. We're just here.

We want to understand all our clients' issues, from the huge right down to the tiny. This is – and always will be – the Lambert Smith Hampton approach. No stone is left unturned. No angle goes unconsidered. Every job is important.

It sounds like hard work. It is. But that's how success happens.

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