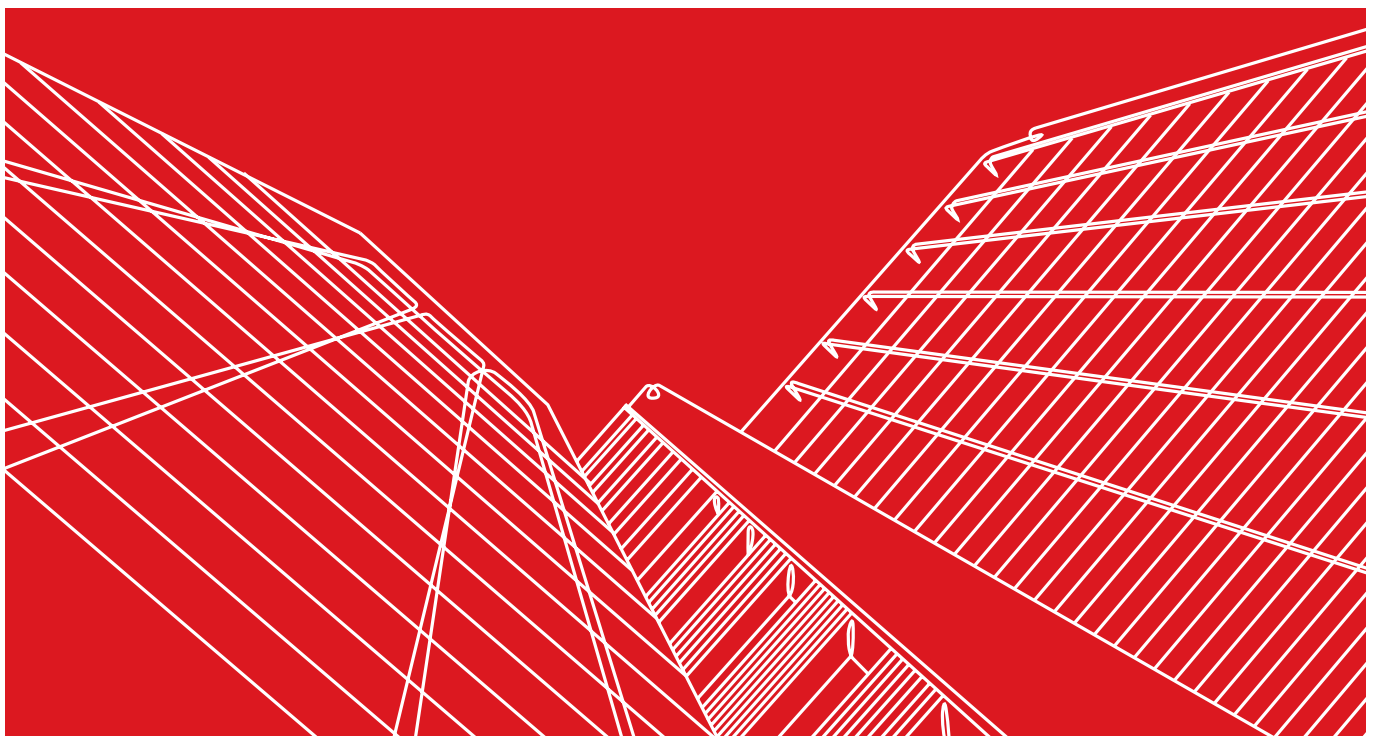




## Renew, restructure or relocate?

### A tenant's guide to maximising lease negotiations

The UK's occupational property market has shifted since 2007, with headline rents in most locations falling dramatically and unprecedented incentive packages on offer. Average lease lengths have also reduced significantly, from 14.7 years in 2001 to just 5.8 years in 2012 according to the IPD Lease Events Report 2013.



With the economy struggling to rebound, and the focus on driving down operating costs to preserve vital cash flow, use this opportunity to capitalise on the sluggish market conditions and negotiate more attractive terms for your leasehold premises.

If faced with an approaching lease break or expiry, you have three options: renew, restructure or relocate. To extract the best value from your leasehold premises it is important to do your homework before you decide which route to take.

## When you know what you need from your space, how can you guarantee the best terms?

### Analyse your negotiating position

From a landlord's perspective, the prospect of a secure income stream is an attractive proposition in the current economic climate. Having a solid understanding of what it is you have to 'offer' will put you in the best negotiating position.

- **Covenant strength** - Restructuring or renewing a lease can have a significant impact on the capital value of a property. If your business has a strong covenant, your landlord will be keen to retain you as a tenant – particularly if he is due to refinance his own debt in the near future.
- **Timing** - While an upcoming lease event is the perfect opportunity to reassess your occupational requirements, waiting until this point can significantly limit the scope for renegotiating the lease terms. Conducting the due diligence necessary to comply with the terms of your lease, gathering sufficient evidence, or indeed preparing for relocation and fit-out of new premises is likely to take at least 18 months.
- **Market evidence** - As the remnants of the last development cycle are absorbed and competition for high quality space in prime locations increases, so too will the upward pressure on rental levels. Obtaining and understanding a robust pool of comparable local market evidence, i.e. what recent deals have been agreed, what alternative space is available and how long it has remained vacant, will help you properly understand your negotiating position.
- **Repairs and improvements** - Most leases come with repairing obligations, where you are required to keep the premises in an agreed condition. Failure to comply with the dilapidations requirements of a lease before the specified date could result in a hefty financial penalty or result in a failure to comply with the break option requirements. Planning for the dilapidations and relocation process ahead of your lease break or expiry is therefore vital.

*LSH showed commercial skills in all negotiations and demonstrated real initiative at getting deals done, both on the leasing and on the sale side, to ensure that we achieved a good return from what had been a very risky and challenging situation for us.*

**Greg Shand, Barana Group**



## Identify your occupational requirements

Whether you choose to remain in your existing premises or relocate, you must first determine if the space you currently occupy meets your immediate and future requirements.

### What factors are most important to your business?

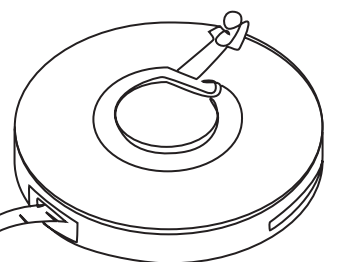
- **Size** - How much space do you anticipate you will need and for how long? If flexibility is important, then a shorter lease or the incorporation of a break option will allow you to review your requirements more frequently as the needs of your business evolve. You can also restructure the amount of space your business occupies, either by way of the surrender, assignment or sub-letting of surplus space, or the acquisition of additional space.

Landlords may remove a break clause and/or extend your lease in return for downsizing or a cash payment and if more space is acquired; you will have the opportunity to reduce your rent and agree other financial incentives.

- **Location** - The location of your premises can have a significant impact on your business, and has as much to do with operational needs as it does with attracting and retaining the best customers and employees. It is crucial to consider issues such as the quality of local amenities, transport links and parking facilities when developing your accommodation strategy.

- **Budget** - Aside from your monthly rental payments, you should also take into account any additional occupational costs over the duration of the lease, such as rates, running costs associated with the maintenance of plant and equipment, or utilities. If the property was built pre-1990, it is likely that it will require significant investment to bring it inline with its more efficient modern counterparts, which could result in the landlord recouping some or all of the costs through the service charge. The need to replace plant in older buildings can place a significant burden on a tenant.

Strong rental incentives might on the face of it make it seem more cost effective to relocate rather than renew or restructure your existing lease. However, you will need to fit out any new space before you can occupy, so it's critical to set your relocation budget (including fit-out costs), timescales and desired layout prior to viewing potential premises so that time is well spent in assessing the options. The disruption to your business in relocating also needs to be taken into account.



## Our approach

The process of negotiating and executing the terms of a commercial lease is long and complex, and mistakes can be very costly and hard to rectify.

Lambert Smith Hampton brings together expertise across a range of disciplines, including Building Consultancy, Lease Advisory, Agency and Rating.

Our team will help you examine all available options, helping you execute those which will produce the best commercial result for your business.

### Our services include:

- Identification and subsequent negotiation of opportunities for improving existing lease provisions
- Expert Witness advice where an agreement cannot be reached
- Space utilisation review to ensure optimum operating efficiencies
- Disposal of surplus space through assignment or sublease
- Dilapidations assessment and negotiation of financial settlement or works requirement
- Detailed advice on market conditions, including rental values, lease terms and rent free / capital incentives
- Thorough market search for suitable properties and negotiation with landlords of short listed properties to 'market test' options
- Preparation of a building survey / schedule of condition to minimise repairing obligations
- Procurement and management of fit out / refurbishment works to ensure value for money
- Business rates and service charge audit and assessment to reduce running costs to ensure 'value for money'

## Our credentials

### Renew

- Lease renewal on **27,000 sq ft** Job Centre on behalf of Telereal
- Rent reduced by **35%**
- Secured a capital contribution of **£500,000**, equivalent to two years rent free
- Reduced lease commitment to seven years



### Restructure

- **24,000 sq ft** re-gear for global law firm in Hanover Square, W1
- Acquisition of additional **8,700 sq ft** within existing building for expansion purposes
- Client saving circa **£4 million** over next six years through rental incentives and structuring



### Relocate

- LSH acquired **15,000 sq ft** of office space in High Wycombe for the UK head office of Maritz Research.
- Savings of nearly **£800,000** were secured against the original quoting terms, in addition to an option to expand the space in the future if required.



## 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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