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Lease Renegotiation Opportunities



In commercial real estate today, there are some significant opportunities for lease renegotiation. Some tenants would seize the opportunity for a rental reduction or lease adjustment in exchange for some benefits back to the landlord. This then says that you can through this process stabilise the tenancy mix, and rebalance the property for the longer lease term.

When the business community is under some pressure in regards to trade or occupancy, the lowering of the rental over the short term is a satisfactory exchange for other lease terms and conditions that will have benefit for the landlord. The pressures on tenants and businesses today will not remain so forever. A lower rental for 12 months can give you tenant stability through difficult times, whilst preparing the property for greater capital gain or future sale. This is what lease strategy is all about and these are the ideas that we can give our clients to help them with

tenant and lease optimisation.

Lease renegotiation opportunities are normally structured into a tenant retention plan. That tenant retention plan would identify the tenants that are critical to the future of the property, and then seek to retain these tenants for the long term. Things should be done to assist them to remain in occupancy conveniently and economically. The landlord therefore benefits by tenant and rental stability. There is however the need to achieve a tradeoff and benefit for the landlord if you are to give the tenant a benefit today.

Here are some ideas that can apply to the landlord benefit process. This is assuming that you achieve or provide an adjusted lower rental for the tenants in occupancy.

1. Get the tenant to exercise their option in the property early. By exercising the option, the landlord knows that the tenant will remain in occupancy for the longer

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term. That is the base benefit.

2. You can adjust the terms of the existing lease so that the prevailing market conditions are more beneficial to the landlord at the end of the lease term. You can obligate the tenant to undertake further renovation works if they choose to leave the premises at the end of lease. This then prepares the premises for alternative occupancy with a new tenant, at a lower cost to the landlord.
3. Any lower rental today, can prepare the tenant for a higher rental at some stage in the future. This assumes that the business can be seen to be successful in coming years and months. The lower rental today provides the tenant with breathing space for generating income and repositioning their business. Over time they can likely achieve a better ability to pay the rent.

4. Any longer lease term provided to the tenant today should include a renovation requirement. They can be obligated to renovate the premises in a particular way at a certain time. Normally leased premises require renovation every five years. That renovation can include painting, carpeting, and cosmetic upgrades. A suitable agreement can be struck with the tenant and appropriately documented as part of an agreement for a lower rental today.

It is in property markets like this where we can be assisting the landlords to reposition their property and stabilize the tenancy mix. That is the high value of experience and knowledge in commercial and retail real estate that we can apply to help our clients at this time.

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IMPORTANT INFORMATION

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