



Efficiencies in Lease Renegotiation

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In commercial real estate, the renegotiation of a lease provides efficiencies in income stability and market rental. This is where an experienced commercial real estate agent can offer specialist experience and market knowledge to the clients that they serve.

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Lease renegotiation is therefore a special service that can be provided by agents in an ongoing way. Given that the tenant and the landlord are already in a lease relationship, the fee for the renegotiation service should be somewhat less than the normal full lease fee that is paid for introducing a new tenant to the property. It is not unusual to have a fee which is calculated at 75% of the normal lease fee.

Here are some specialist services that can be incorporated into the lease renegotiation concepts.

1. It is sometimes desirable to get a longer lease term for the tenant and or the landlord. This then provides stability to the property income stream for the landlord. It is not unusual to renegotiate these leases when the tenant is nearing lease expiry. The extension of the new lease term helps with the refinancing of the property.

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2. When a tenant gets to the end of the lease term, the make good provisions of the lease need to be managed. This then says that the tenant is required to undertake certain works in accordance with the terms of their lease. These remedial make good works should be undertaken by the end of the lease and suitably inspected prior to lease expiry.

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3. Any new lease should involve fresh lease guarantees or bonds. They are a surety for the landlord to draw on if the tenant defaults. In most cases, the value of any lease guarantee or bond should be equivalent to at least three months rental and outgoings charges. It is not unusual for this amount to extend up to a value of six months where necessary with tenants of dubious or unsubstantiated history. The landlord's cash flow should be protected in this way.

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4. A good lease will be a balance of market rental, rental types, outgoings, lease terms and conditions, option, and make good. In most cases it pays to have a solid awareness of the local property market as part of negotiating these facts and conditions.

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5. Relocation and renovation requirements arise from time to time with older properties and with certain tenancies. They can be managed through as part of a lease service.

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6. The terms and conditions of any lease will feature critical dates, obligations on the tenant to undertake certain works, permitted use provisions, insurances, and renovation activity. All of these things can be managed for a fee.

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Any new lease renegotiation requires skill on the part of the agent. Good leasing agents are well placed provides specialist leasing and renegotiation services between many tenants and landlords. Diversify your fee base so that the services can be readily available to landlords and tenants where situations permit.

IMPORTANT INFORMATION

This information is prepared as general training information for commercial real estate practitioners globally. No part of this material may be regarded or relied upon as legal or specific advice for individual situations. Although all care has been taken in the preparation of this material, recipients:

- Must not alter their position or refrain from doing so in reliance upon this material; and***
- Are urged to seek independent legal advice with respect to the matters traversed in this material; and***
- Are urged to undertake further studies into legislation and practices that apply in their location.***

This is another quality resource from the Commercial Real Estate Training Online Series.

Contact us below:

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