

DIRECTORS' BRIEFING

LEASE REGEARING – FIVE POINTS OF LEVERAGE

Regearing a property lease can help an occupier reduce its costs, its contingent liability and provide greater business flexibility. But these benefits are dependent upon how you apply Five Points of Leverage.

Lease income is treated by landlords in a similar way to bond income by an investor. It represents the security of the return. Any event that shortens or lengthens this income flow, or indeed alters its value, provides an opportunity to restructure the lease.

Important lease events such as a break clause or a lease expiry provide obvious opportunities. Other factors to consider are the length of the remaining lease, a rent review, a material change in an occupier's covenant strength or the Landlord's financial position. All of these are potential points of exploitation for occupiers.

Haywards' Five Points of Leverage are:-

1. Strategy - What do you want to achieve? – Is the goal to reduce the rent to free up cash or to gain an improved set of lease terms? Or, is it to prepare your company for sale or merger? A clear understanding of your desired business outcomes is imperative to creating the correct strategy.

2. Timing - When should an approach be made? – Too early and you will not be taken seriously, too late and any leverage you may have had could be lost. The timing of an approach is fundamental to success.

3. Negotiation Style - How should you go about it? – Should negotiations be hard and fast or should they take a slower, more measured approach? Are you negotiating from a position of strength or weakness? Should you get advice? This is a one-off opportunity that you must not get wrong.

4. Financial – How valuable is your tenancy? Do you represent a large percentage of the landlord's income stream? Has your covenant strength improved since the lease began? An understanding of your company's financial position and

its relationship with the landlord's income stream is important. Knowing how to lever this information is important.

5. Landlord's Position – How will an approach to the Landlord be received? – It is crucial to understand how your landlord views risk, vacancy rates, and most importantly of all how he would receive the financial proposition you might wish to offer. Having an effective financial modelling tool is a cornerstone of this exercise. Haywards has developed such a tool. Furthermore, since developing this system back in 2001 we have found that a clear, financially based presentation always succeeds over a more traditional surveying orientated approach.

Final thoughts

It is important not to forget that the lease is a legal document and a binding contract. The Landlord is perfectly entitled to stand by the original agreement. However, by having a firm understanding of the Five Points of Leverage will materially improve your chances of cutting your costs and to redefining your lease.

In some cases property costs have been cut by 50%. In others, where the emphasis has been on gaining increased flexibility, clients have materially changed their subletting rights in addition to reducing their base costs.

Taking a little time to consider your lease(s) could return significant benefits to your business; no more so than in the current market.

For Further Information

Haywards has numerous Case Studies you could see and clients you could talk to on this subject matter. If you would like to know more then please do not hesitate to call us in the first instance.