

Rent Reviews

Rent reviews are back with a vengeance. With headline rents 30%-50% higher in Central London than in 2010, the profit eating monster that rears its head every 5 years has returned to feast on tenants who secured a "cheap" deal 5 years ago.

So what weapons do you (as a tenant) have in your armoury?

- As with any battle, the outcome often revolves around the planning and way to approach the enemy.
- Ideally for a rent review, a 6-12 month lead-in period allows time to develop a strategy.
- The landlord may not have an obvious weak spot, but there is likely to be one. Contesting the review hard will put the landlord under pressure and avoid the rising market from being on the landlord's side.

Who should lead you into battle and what will the plan be?

- A rent review expert should lead the negotiation. They will assess the new rent and the legal arguments based around your specific lease terms to secure the lowest rent.
- The expert will:
 - Research the key elements of the lease and, specifically, the rent review clause and the nuances that will affect the rental value
 - Confirm the correct area of the premises in accordance with RICS guidelines
 - Research comparable evidence and its interpretation - whether it could assist or harm your case
 - Research the property market in the area and assess its impact on the final outcome.

As a tenant, what does it mean to 'lose' your review?

- Establishing what the business could 'lose' if the rent increases is an important part of risk managing the review. As an example, an extra £2 per sq ft on 5,000 sq ft for 5 years will cost a tenant £50,000. This may mean securing an additional £100,000 - £200,000 in sales to cover the additional cost. What happens if the rent increases by £5 per sq ft?
- An unexpected defeat at rent review may mean damage to your P&L and, ultimately, a reduction in the value of the business.

Rent Reviews

Surprisingly landlords, who have less to lose than a tenant, pay more to their agents to succeed.

- An increase in rental income directly affects the capital value of the property – thus giving the landlord 2 wins - an increase in income received and capital value. Landlords recognise this and reward their advisers accordingly.
- Tenants are contracted to pay the new increased rent to the landlord, even if this does cripple the business. Despite this rent review advisers are seen as a cost to the business and not an asset to protect and preserve profitability.

Resolution

- This will come from combining the value of the premises, using the lease, evidence, specification and in some instances case law.
- If agreement can't be reached, then a quasi-judicial procedure is followed and your adviser will submit written representations to present your case. This is where knowledge of the law surrounding the procedure and process of rent reviews is critical.

Summary

Plan your strategy early, know what affect a 'win' or a 'lose' will have on your bottom line and appoint a rent review expert to fight this battle for you. These three actions will preserve you from the worst excesses of a rising market.

For further information please contact:

- **Lease Renewals, Rent Reviews and Lease Regearing – Robert Smith (07917 107 320) or Tessa Passey (07876 860 428)**
- **Developing Accommodation and Workplace Strategies – Nick Cook (07768 607 060) or Alasdair Gurry (07968 110 812)**
- **Lease Disposals, Acquisitions and Rates – Iain Rackley (07795 037 783) or Ben Hutchen (07795 842 497)**
- **Procuring Fit Outs – Tony Oxford (07980 987 477) or Manish Ranpuria (07557 923 345)**
- **International – Duncan Hamilton (07733 105 390)**
- **Capital Markets – Mark Holliday – (07808 139 569)**
- **Dilapidations – Tony Oxford (07980 987 477) or Colin Hope (07825 760 290)**

Avison Young is the world's fastest-growing commercial real estate services firm. Headquartered in Toronto, Canada, Avison Young is a collaborative, global firm owned and operated by its principals. Founded in 1978, the company comprises 1,700 real estate professionals in 66 offices, providing value-added, client-centric investment sales, leasing, advisory, management, financing and mortgage placement services to owners and occupiers of office, retail, industrial and multi-family properties.

© 2015 Avison Young (Canada) Inc. All rights reserved. The information contained herein was obtained from sources which we deem reliable and, while thought to be correct, is not guaranteed by Avison Young (Canada) Inc

