Leasing Basics

5 Things to consider before signing a retail lease

1 - Get the right deal from the outset.

As a general rule, the rent payable on your premises lease is the biggest annual expense for your business outside stock and wages so it is extremely important that you are paying a fair market rate.

If rent is higher than market at the beginning of the lease, the cost to you will be multiplied and compounded over the term and once an agreement is in place, the chances of a landlord agreeing to a rent reduction until expiry of the lease, is meniscal. Accordingly, it is imperative to get this right or the consequences will be felt over many years.

Apart from the rent payable, there are many other commercial terms that make up the lease agreement. It is important to obtain a good outcome for all of these to ensure your lease represents a valuable asset for your business.

Below is a list of key areas to pay close attention to while negotiating your lease. Don't forget as a Comprehensive ProVision member you have access to the Business Services Manager who can guide you throughout the whole process or even negotiate on your behalf.

- Annual rent increases
- Rent free periods
- Further term options
- Fit-out contributions
- Percentage rent
- Exclusivity

2 - Options to renew.

An option to renew your lease is a relatively common clause within many lease agreements. It provides the tenant with an ability to extend the lease for further terms at their discretion.

Options provide a negotiation advantage to the tenants and this is why most larger shopping centres do not offer renewal options. When selecting a lease, be sure you negotiate an option to renew and extend the lease term if necessary. For example, if your lease is for five years, you should consider asking for an option to renew for a further five years on the same terms of your original lease, including the same rent-review terms and rent increments – so there are no surprises down the track.

3 - Deciding the length of your lease.

A longer term lease is generally favourable for a business as it provides security of tenure for the foreseeable future. At the start of the new lease term it also allows investment in the business by way of a quality shop fit knowing that there is sufficient time to obtain a return on the investment.

A good lease is say 5 years with one or two further 5 year options. This provides long term security to the tenant as well as the flexibility to choose whether or not to take up the options and for example, relocate the business to new premises should circumstances warrant this. A 5 year term also offers comfort and security for the landlord which often means a better deal can be struck.

Shorter term leases can sometimes be an advantage to the tenant and this may be in cases of surrounding property developments and uncertainly. In these circumstances, short term leases provide greater flexibility and permit termination of the lease at expiry should a relocation be necessary. However, at lease expiry the landlord also has the option not to renew the lease which can create an additional business risk for the tenant.

Short term leases are still usually subject to a market rent review at expiry which can result in higher rent increases and additional time spent in negotiation so the shorter terms are only generally preferred for specific circumstances. Terms of say 3 years does not offer much security for either party but attaching further renewal options can provide a far more acceptable position for the tenant.

4 - Security deposits and bank guarantees

The landlord will usually require a bank guarantee or security deposit to be provided when you enter into a commercial lease. These deposits are held by the landlord as ‘security’ from the tenant. The landlord will have the ability to ‘draw down’ or ‘call up’ these forms of security in the event of default by a tenant under the lease.

A security deposit is usually a cash bond, and in commercial matters, this bond may be held by the landlord or in an agent’s trust account.

A bank guarantee is a form of undertaking from a bank or credit union to guarantee payment of a provisional sum to a landlord. The lease will outline the circumstances in which the landlord can ‘call up’ or ‘draw down’ the bank guarantee.

You should factor this cost in when looking at your budget.

5 – Fit-Out.

Practice fit-outs are costly and often not properly budgeted for when signing a lease.

A great fitout can make a huge difference to your busines so it’s important to engage with the right shopfitters, ProVision can assist you in discussing design and refer you to our preferred referral partner for initial discussions and an idea on costing.

To put it in perspective, a fit out in a shopping centre is likely to be upwards from $150,000 so its important to establish an understanding through a fit out expert on the type of cost you will be up for.

As indicated in tip one, sometimes the landlord will be prepared to offer a contribution towards the costs of your fit out. You should note often these contributions are only provided after the works have been completed, paid for and final certificates obtained.

You should also check when negotiating the lease whether you will attend to your fit out prior to lease commencement and handover or following lease commencement and handover. Different landlords have different approaches to fit-out periods.