



# The Three Biggest Mistakes in Retail Leasing and how to Avoid Them Using the LIS System

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The Retail Data Experts

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# Mistake 3

## Poor Preparation for Lease Negotiations



# Introduction – Mistake 3

- ▶ Once you have selected your site, the biggest battle is about to begin, to get the right deal!
- ▶ Did you know that the average lease in a shopping centre over five years will cost the retailer well over ½ million dollars including fitout)?
- ▶ With that much money at stake, you need to get it right. Once you have signed, the die is often cast!

# Topics

“When a retail tenant or the tenant’s representative turns up to a negotiation without the right preparation, there is nothing more that could count against them for the space.”

Peter Seeto – Director Cabmon Property, Leasing Executive – Dexus, ISPT

## So what do you need to come prepared with?

- ▶ A thorough understanding of their market and their competition including price points
- ▶ A detailed plan of their revenue projections and ideally a five year plan
- ▶ A detailed plan on their fitout including broken down costs and times – This will assist if they are wishing to obtain a contribution to fitout
- ▶ Comparable leasing evidence relating primarily to the proposed use, but generally across the centre
- ▶ A detailed understanding of their obligations under a lease including bank guarantees, turnover provisions
- ▶ A strong track record showing financial viability

# Did You Know?

Negotiate from a position of strength – Knowledge is power!

The average retail lease has at least 15 negotiation items other than rent? LIS can help with all of them – Here's how!



Item	LIS has the information <i>you <u>need</u></i>
Base Rent	Our database will help you compare like with like: <ul style="list-style-type: none"> <li>• Use ( food with food)</li> <li>• Location ( within centre)</li> <li>• Frontage , size, depth</li> </ul>
Base Rent Review	What are other tenants getting? A 1% reduction can save you over \$16,000 over 10 years on a std 120k pa rental deal.
Area	Can you believe that 60% of all leases do not have an area on the lease, yet are stuck on a rate/m <sup>2</sup> basis? Don't pay for space you shouldn't like common areas etc. Get advice
Percentage Rent	Don't let the landlord take unnecessary business profits. Usually the lower the better here!
Bank Guarantee	What are others getting in the centre. This can tie up unnecessary working capital.

Item	LIS has the information <i>you <u>need</u></i>
Operating Expenses	Can you negotiate a gross or semi-gross lease( o/gs included in the rent.) Are there any outgoing you shouldn't be paying e.g Land tax in QLD and Vic?
Promotion / Marketing Levy	Check what others have achieved and what are their increases. Is there an opening promo levy and have others paid it?
Permissible Use	Very important. Should not be too narrow to prevent assignment of lease. Also are there any current tenants that have permissible uses that compete with yours?
Incentives	Some incentives are confidential, however in most leases there is a clause which refers to whether an incentive was paid. Check on LIS. Also major landlords report overall trends on incentives. So do your homework.
Lease Term	Although 5 years is a minimum, it can be reduced or increased by negotiation. Short term and longer term are becoming common. Check the trends.

Item	LIS has the information <i>you <u>need</u></i>
Fitout Period	Make sure you have adequate rent free time to fitout. Allow 4 weeks as a minimum and sometimes longer, if it is a complicated fitout.
Personal Guarantees/Covenants	Many landlords require this, however, not all, check what others have achieved.
Make Good Obligations/ Defits	Be warned, this can cost \$10–\$15k. Only agree to remove and make good lessee's fitout. A/c, ceilings and floors which were there at the start only made good to the condition at the start. Take photos to document this
Re -decoration clauses	Check what others have achieved. Should not be more than once during the term.
Legal Fees	Retail Leases Act prohibits lessors from recovering lease and disclosure documents preparation, however some are unaware. Make sure you don't pay for costs associated with preparation of leases.

# Summary – Mistake 3

- ▶ There is huge money at stake in retail leasing which is complex!
- ▶ Knowledge is power
- ▶ There are at least 15 negotiation points to check, other than rent. LIS can help you with all of them.
- ▶ After all this work, you can finally say you got the right shop in the right location at the right deal!

# FINAL TASK

- ▶ Now you have read the 3 biggest mistakes in retail leasing and how to avoid them, it means you want to improve your results!
- ▶ The only thing left to do is get us involved, we are here to help you! Contact us on

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