

# LEASE RENEWALS

Guide and FAQs



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## 1 What is a lease renewal?

All commercial leases will have an expiry date - however in some cases the lease will not come to an end unless and until it is formally terminated or renewed.

Whether the lease is terminated or renewed, it needs to be formally documented.

For both landlord and tenant, it is an opportunity to reassess and implement strategic and operational requirements and as such, stakeholders need to engage considerably ahead of the stated expiry date.

## 2 When should I start to consider my strategy?

SIPP landlords (and tenants with renewal rights) should be evaluating options at least 18 months before the lease expiry date.

Options might be influenced by pension drawdown expectations, or at a real estate level by opportunities to enhance value through refurbishment or lease re-engineering.

In fact it's never too early - all investors should regularly review their exit strategy and opportunities to enhance value, irrespective of the lease expiry date.

## 3 Who triggers a renewal?

It depends:

- On whether the lease is contracted in or out of the Landlord and Tenant Act 1954. This gives prescribed rights to both parties;
- Under the 1954 Act a landlord can serve notice to terminate on specific grounds or propose a new lease; a tenant can also serve notice to renew. Remember though that a tenant has no obligation to stay, even where rights exist to do so;
- Notices need to be served (and responded to) carefully and on time to ensure strategic aims are met and avoid financial loss and missed opportunities;
- For leases outside the 1954 Act where there are no renewal rights, it may suit either party to expedite negotiations. For example (as a tenant) to ensure continuity of a trading business or provide sufficient time to relocate;
- A landlord may equally be concerned about continuity of rental income, or may prefer vacant possession to re-let to another tenant at a higher rent. Such a strategy would need time to negotiate dilapidations with the outgoing tenant and remarketing of the premises.

## 4 What does it involve?

The process would typically involve:

- An initial review of the market rent to determine whether the property is under or over rented;
- Depending on whether the 1954 Act applies, consideration is then given to the service of notices, stating whether the landlord intends to renew (and on what proposed terms) or seek vacant possession;
- The appointed surveyor can help develop the renewal strategy, advise on the timing of serving any notices (via solicitors) and the negotiation of new lease terms.

## 5 What else should be considered?

Continuity of income:

- Even where a tenant has renewal rights, they are not obligated to stay. The best lease renewal strategies allow time to implement different options and maintain continuity of income, through re-letting, if negotiations fail.

Terminal dilapidations:

- An outgoing tenant will normally be responsible for returning the property in good condition. Once surveyed, they either need time to complete the works (before vacating) or a financial settlement negotiated, including legal and surveyors costs.

Asset Management Opportunities:

- Some questions to consider - could the property be put to different use, that commands a higher rent? Could re-letting to a stronger tenant improve the overall valuation of the property?

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Templemead Property Solutions Limited,  
3 Temple Quay,  
Bristol, BS1 6DZ  
templemead.co.uk

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