



OAK INVESTMENT MANAGEMENT GROUP



JUNE (2) 2014

The art of securing a re-gear in Real Estate

A re-gear in real estate is when an existing tenant seeks to renew their lease for an additional or a new term. Although this seems quite simple (and fundamentally is quite simple) there are many aspects that need to be considered. What does the tenant need at the time of a re-gear? What can a landlord offer? How is the agreement to be negotiated? Above all attention needs to be paid as to how a re-gear is negotiated.

Usually, it can be taken as given that the tenant will want to pay as little rent as possible with as much optionality as possible, and that the landlord will want the opposite. This belief and attitude towards negotiating a lease extension can create a seriously fraught relationship – and can end up with a lease termination in nobody's interest. Although extending a lease can seem like a 'zero sum game' it is not entirely so. Both landlord and tenant can have optimal arrangements that suit both of them. Both can seek and receive re-assurances that are much more nuanced the lease length or rate. Both can seek common ground and understanding on the basis of reasonable economic behaviour.

It is true that a landlord is principally concerned about absolute level of rent and of length (and certainty) of that rent coming in but there are other issues: development optionality, inducements, capital expenditure, rent frees, environmental liabilities, changing legislation, forward looking fiscal treatments to name just a few. These can be live issues, hypothetical ones or simply points of principle.

As a result, if by representatives or by themselves, both parties should seek out clear priorities that are supplemental to each party. Such is the nature of real estate these may not even be economic issues i.e. things that cost money. For example, it is quite possible to accommodate an occupier or a landlord for non-monetary issues. If both sides needs / strategic priorities can be met headline issues may well be easier to agree, it will have created an atmosphere of good will as well as a momentum towards an agreement – that would be hard to ignore and is often a predicator of success.

Whether an occupier and / or a landlord is a large or a small company real estate decisions are taken by individuals of responsibility as these are individuals, empathising with their wishes their priorities and their constraints is the art of negotiating a re-gear in real estate. After all, almost by definition, taking a new lease in real estate means living with the consequences of that decision for a long time.

Almost always it is also worth investing in the relationship either as a landlord or as an occupier in order to start a new lease 'on the right footing'; on the one hand re-assuring a landlord that an occupier will be reasonable or *vice versa*. This makes reaching an optimum solution an art rather than a science. It means reading the other side's needs and offering a solution that does not compromise the vital interests or priorities of the other side. There is often more leeway than people imagine and one of the reasons that property will always be more about people than about buildings – and certainly a re-gear where the occupier already 'knows' the building, negotiations will be all about 'attitudes'.

Nicholas Frankopan is Managing Director of Oak Investment Management Group pan-European real estate investment manager. To contact the author please email nfrankopan@oakadvisors.co.uk or learn more about the group at www.oakimg.com. © All rights are asserted please request permission for reproduction.