

Your guide to

LEASING PREMISES

Follow these proven steps
to achieve a better deal on
better premises

Introduction

Thanks for downloading our eGuide on Leasing Premises. It's intended to be a primer that will help you:

- establish a robust process
- give you a stronger hand in negotiation
- secure better premises that truly meet your business needs

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Procuring premises on the basis of 'dollars per square metre' ignores best-value outcomes delivered by a proper procurement process

An overview

Procuring leased premises is one of the biggest decisions your business can make. Property represents the biggest single cost to many organisations and it's a commitment that usually lasts for years

Minimise risk

So it pays to avoid pitfalls, minimise risk and get the best deal possible. That requires a much more thorough process to work through your property options than most businesses believe.

Many businesses are likely to focus on 'dollars per square metre' and a relationship with a commercial agent (broker) whose position is compromised because they are paid by the landlord. That focus and that relationship can cost you dearly. Instead, think of it this way...

Maximise opportunity

Think about property strategically. Procuring premises affords your organisation a once-in-a-generation opportunity to align your premises to your business strategy and create positive change in your organisation – change in working practices, culture, company profile, staff retention and performance.

Don't miss out on maximising the opportunity. A robust process that considers all these things – combined with a deal negotiated for you by an independent adviser – delivers a solution with the highest value outcome.

Step 1

Understanding your current premises/lease

Before starting to consider alternative premises, make sure you understand your current lease and any exit obligations

Unless you are a start-up business, you are likely to have an existing lease or potentially premises you own.

A key step is reviewing the headline provisions of the current lease to ensure you understand:

- When the current lease expires
- Does the lease have any renewal or further lease tenure available – and, if so, what notice do you need to provide to the landlord?
- What is the current rental you are paying? Is it a net rental where you also pay operating expenses to the landlord or directly to suppliers (e.g. rates) or is it a gross lease where all costs are included?
- How does the rental compare to market? When is the next rent review due? Is the rental likely to go up? Can it go down?

What obligations do you have if you move out? Do you have to remove your fitout, re-paint or re-carpet? Do you own the fitout or is it owned by the landlord? What costs are involved?

Understanding these provisions will help inform you on:

- How much lead time you need to consider alternative premises
- How much rental you can afford to pay in the future
- Whether the current premises could be considered as a potential long-term option, potentially with changes made by the landlord
- The total costs of exiting and leasing new premises

Step 2



Your Accommodation Brief

Put together a robust brief of your premises requirements. Well-thought-out requirements are key to getting the right responses

Before going out to look for space, think about what it is you really need. Leases are normally long-term, costly commitments so you need to get this right.

Think about the opportunities, challenges and issues facing your organisation and how you can use property to support these. This is where the 'gold' is. Here's a simple question you should be able to answer with confidence: Do you really know how your ideal premises will positively affect every aspect of your business?

You should consider how property reflects on branding, corporate profile, internal culture, working practices, as well as its ability to assimilate the latest technology.

Don't immediately jump to thinking about floor area and what you might afford. That traditional 'dollars and square metres' approach ignores the incredible value you might be able to derive from a well-considered property decision.

Set 'hurdle' criteria that an option must pass to be considered – seismic rating, optimal floor size, defined location, building quality, environmental rating etc.

Take this information and put it into an RFP that the market can respond to.

A property adviser can help you through this process and give you the expert advice to get both the brief and the RFP right.

A comprehensive, well-thought-out brief will ensure you generate the best responses for your organisation

Recommended action

- Develop an Accommodation Brief that includes search criteria such as location, premises size, quality, rent expectation and lease term
- Form the brief into a Request for Proposal (RFP)
- Request a formal proposal from respondents containing comprehensive property details, not a short statement of interest
- Make sure the market is clear about what you are looking for

Don't be too prescriptive in the brief – it may limit not so obvious options



Step 3

Look at what's available in your own building or your landlord's other buildings first. The option may be right there

Going to the market

Calling brokers and asking to see properties in line with your requirements is the traditional way. What you actually want is for the market to come to you!



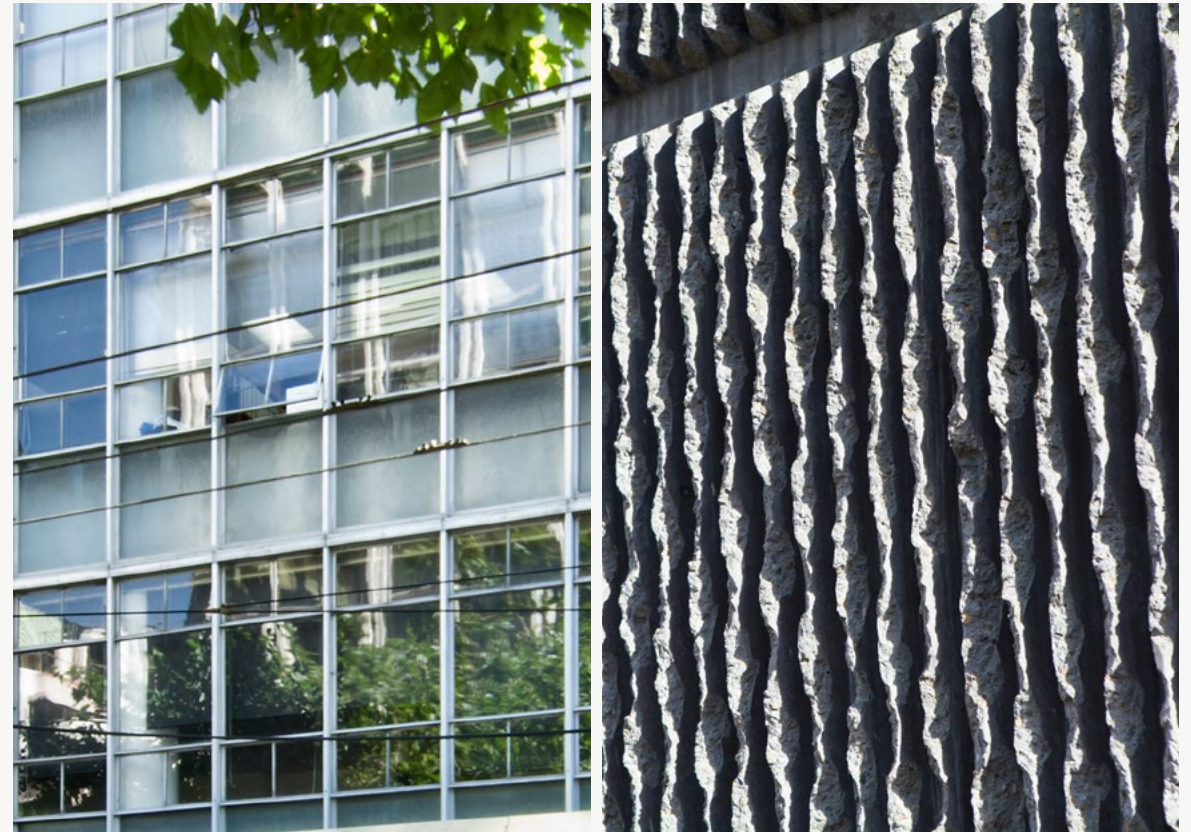
Armed with the robust Accommodation Brief which describes precisely what you're seeking, it's time to start searching for premises.

You could do a search yourself or go the traditional route and call commercial property brokers. However, we believe that immediately puts you in a weaker position.

Those brokers also act for landlords. It's far better to get the market to come to you – and by that we mean both brokers AND landlords. You also need to ensure that the net of options is cast as wide as possible. Test the market, but not with just one party. Go multi-channel.

Recommended action

- Lodge the RFP with the wider market to ensure no one party controls the search process
- Supplement with direct calling or emailing of known parties such as landlords, developers and major occupiers – your property adviser will have these relationships
- Cast the net wide with potential suppliers. There may be someone who just knows about space coming up!



Create a situation where no one party controls the options and develop competitive tension to maximise leverage in negotiations

Step 4

Get out and look at a few of the buildings to get a sense of the quality being offered and those that are worth looking at again more closely

Selecting shortlist options

Start with a 'long' shortlist of property options and work your way down to arrive at three or four options which you then want to 'enhance'

On a first cut, you may get many options to consider. That's good. Looking at a number of options at a high level helps you learn what you really value. Reflect on the buildings you have visited and keep referring back to your Accommodation Brief.

You'll be able to see more easily which options should be rejected. Your objective is to reach a shortlist in which you can put more time, energy and resources into considering.

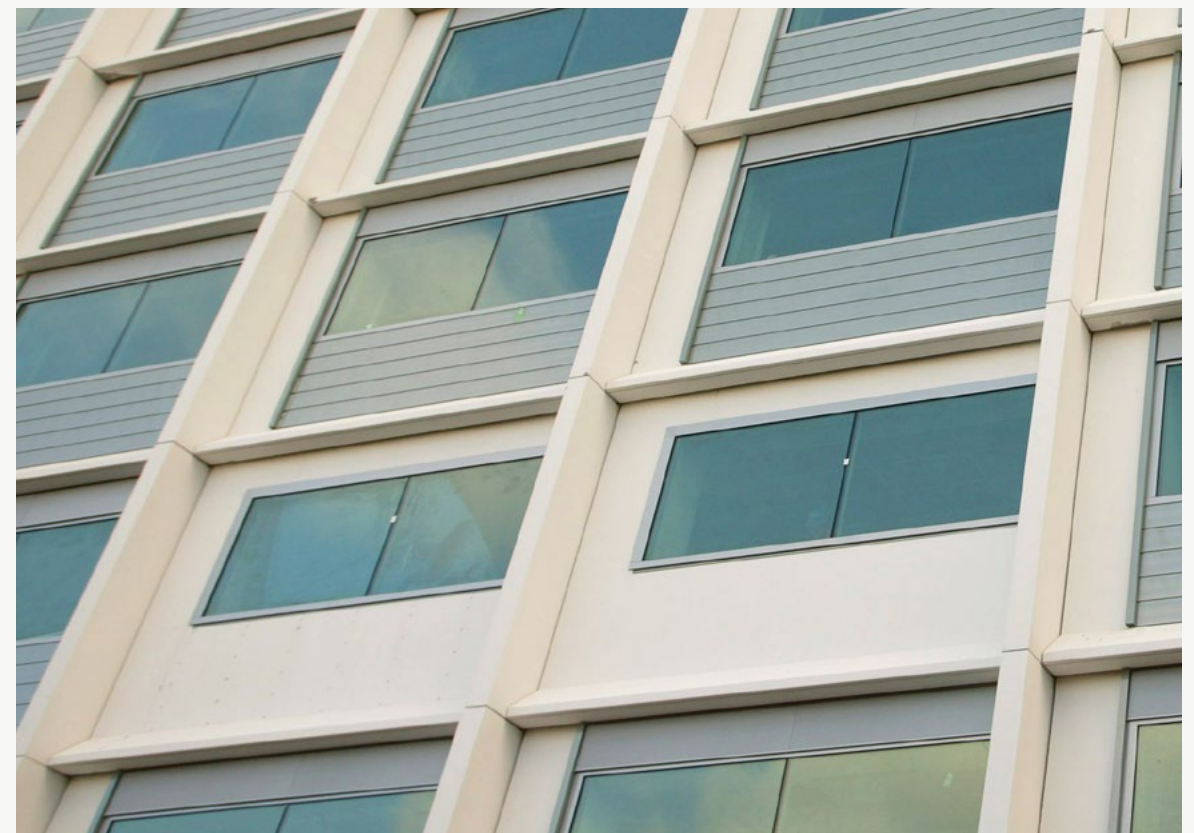
While undertaking this process, you can start 'working up' any options that might look promising, making sure there is no missing information. You can also start working to improve terms offered even though you will have other options still on the table.



Not all options are created equal. Make sure you are comparing apples with apples before selecting the shortlist. You may need more information

Recommended action

- Refine the proposals/responses from the RFP to ensure information is comparable and robust to assess
- Create a 'long' shortlist first, then refine down to a list of three or four that best reflect the requirements of the Accommodation Brief
- Constantly seek to improve the terms offered while numerous options are on the table



Step 5

Make sure claims are backed up with professional advice i.e. seismic reports verifying NBS etc

Enhancing shortlisted options

Once you've reached your shortlist, it's time to 'enhance' your options to ensure that you are able to make the best decision

In every option, you need a good understanding of the risks, issues, costs and opportunities. These factors can be very different across each option. Your primary goal is to minimise risk and maximise opportunity. This part of the process is often executed very poorly. The outcome is at best 'a lucky fit' and at worst a big cost to deal with later on.

First, you need to arm yourself with all the relevant additional information needed to 'enhance' your understanding about each option. This might be seismic, environmental or engineering reports, plans and programmes etc.

Once you have the information, you need to reconsider the options. An option which is lower in cost could have issues which may or may not be important to you. A property which is more costly on *face terms* may actually offer you good opportunities to reduce overall space and enhance your working practices, culture and corporate profile. You should think about 'value' holistically. An independent property adviser can help you determine this objectively.

This process is also a good opportunity to see if you can improve the commercial terms from those in the RFP response. Maximise your competitive leverage for as long as possible.

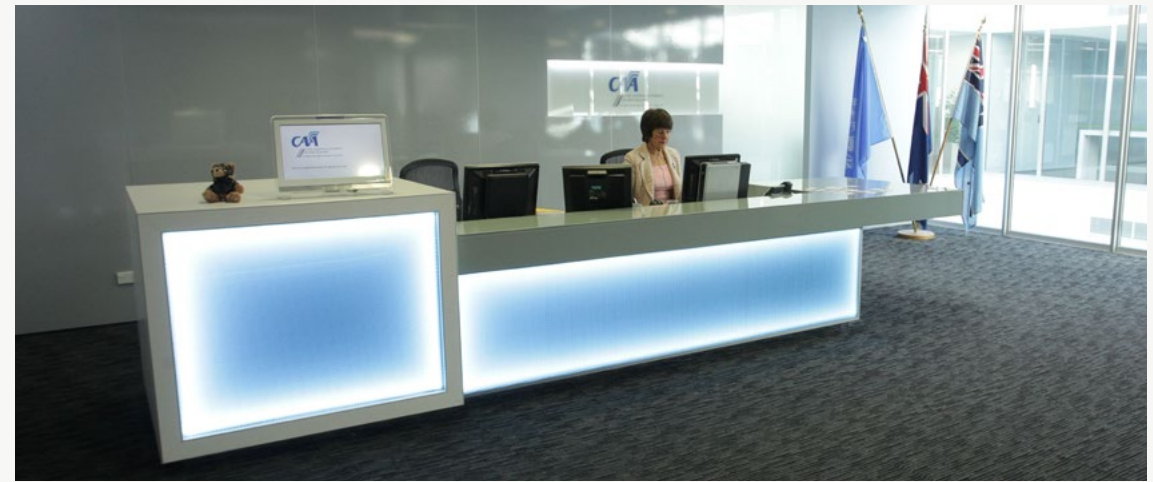
Recommended action

- Obtain additional information (reports, plans etc) to fully understand the risks around the option and use this information to enhance the commercial terms
- Pull in additional information from site inspections
- Leverage multiple options to obtain better terms
- Engage consultant advice e.g architect, engineer and QS to provide professional advice on the options
- Carry out a 'test fit' to see how your organisation can optimally use the space



Leases are long-term commitments so you need to fully investigate what you are leasing

Step 6



Final options evaluation

Once you have enhanced your shortlisted options, it's time to decide which two you want to negotiate



In your final evaluation, you should establish the criteria against which options should be compared based on your Accommodation Brief. For example: How important are location, views and natural light compared to the quality of building services or the shape of floor plates? What are the whole-of-life costs for the term of the lease? What incentives have been offered? Make sure these have been analysed correctly using NPV analysis and that you understand the implications of any incentives. Which risks are you not prepared to accept?

You should score options against each criteria and give more value to the criteria that matter most. Then you select the two highest ranking options to take forward for negotiation. You now have a sound basis to develop your business case and obtain approvals from the business to go to negotiation.

If you only have one preferred option, still make sure you have a credible backup in case the preferred one falls over – the ‘BATNA’

Recommended action

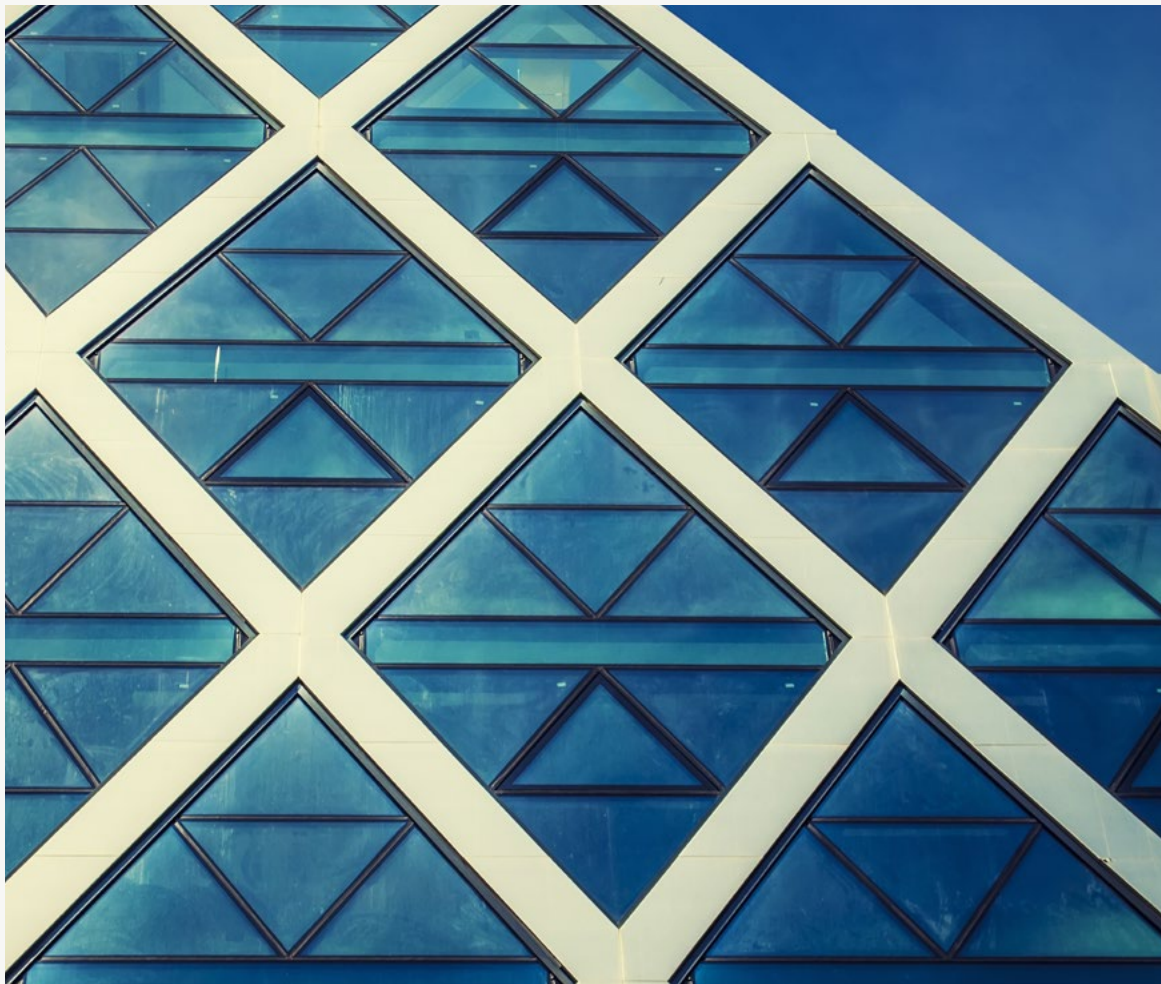
- Develop the criteria and evaluation methodology that will be used to evaluate the shortlisted options from the Accommodation Brief
- Carry out a financial analysis of whole-life costs and capital commitments
- Score the options based on the criteria and select ideally two options to progress to the negotiation stage
- Complete the business case and obtain conditional approvals to move to execution
- Fully understand any fishhooks or tags associated with incentives



Step 7

Negotiate on Commercial Terms

Having two options to negotiate puts you in a position of strength



Taking more than one option through to negotiation allows you to enter into those negotiations on the remaining commercial terms from a position of strength. If you are only running one option, there is not much incentive for the landlord to improve the original offer.

This stage of the process requires the parties to concentrate on the detail and make sure their obligations are clearly articulated. Be very detailed and specific about the scope and quality of any upgrade works, the time of the works, liabilities and allocation of costs and form of documentation to be used. Focus on the headline commercial terms and develop a Term Sheet to capture these terms accurately. Your property adviser will be able to explain how a Term Sheet works.

Once negotiations are complete, you will be able to objectively compare the options and decide which one is best.



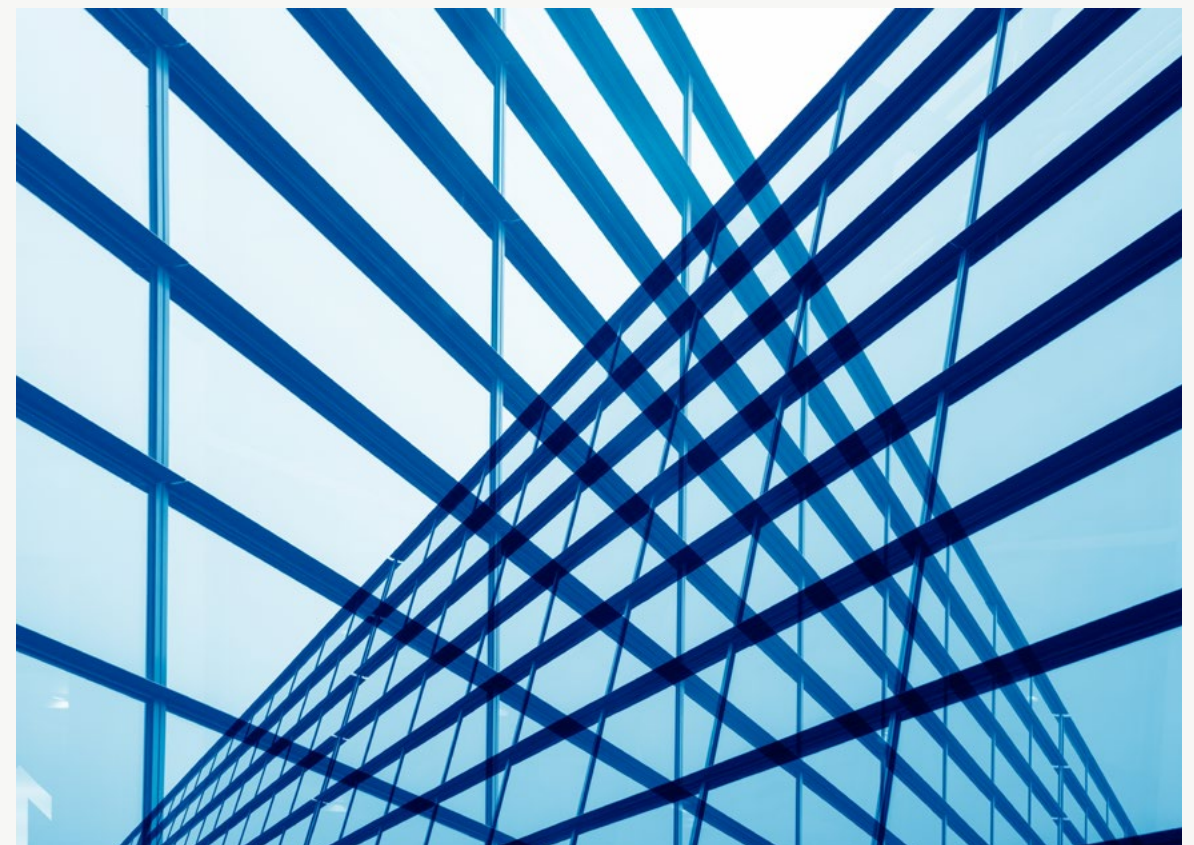
Recommended action

- Finalise commercial terms of lease with the landlords of the two preferred options
- Develop up the scope of any landlord works, quality specification and programme of works as part of the negotiations
- Secure conditional agreement from landlords on the commercial terms
- Select the best option from the negotiation

Try to get the landlord to agree your preferred standard form of lease documentation. This will give you the advantage when it comes to the drafting of provisions



**Run two preferred options
– keep the landlord and the
market guessing which one
you will finally take**



Step 8



Documentation

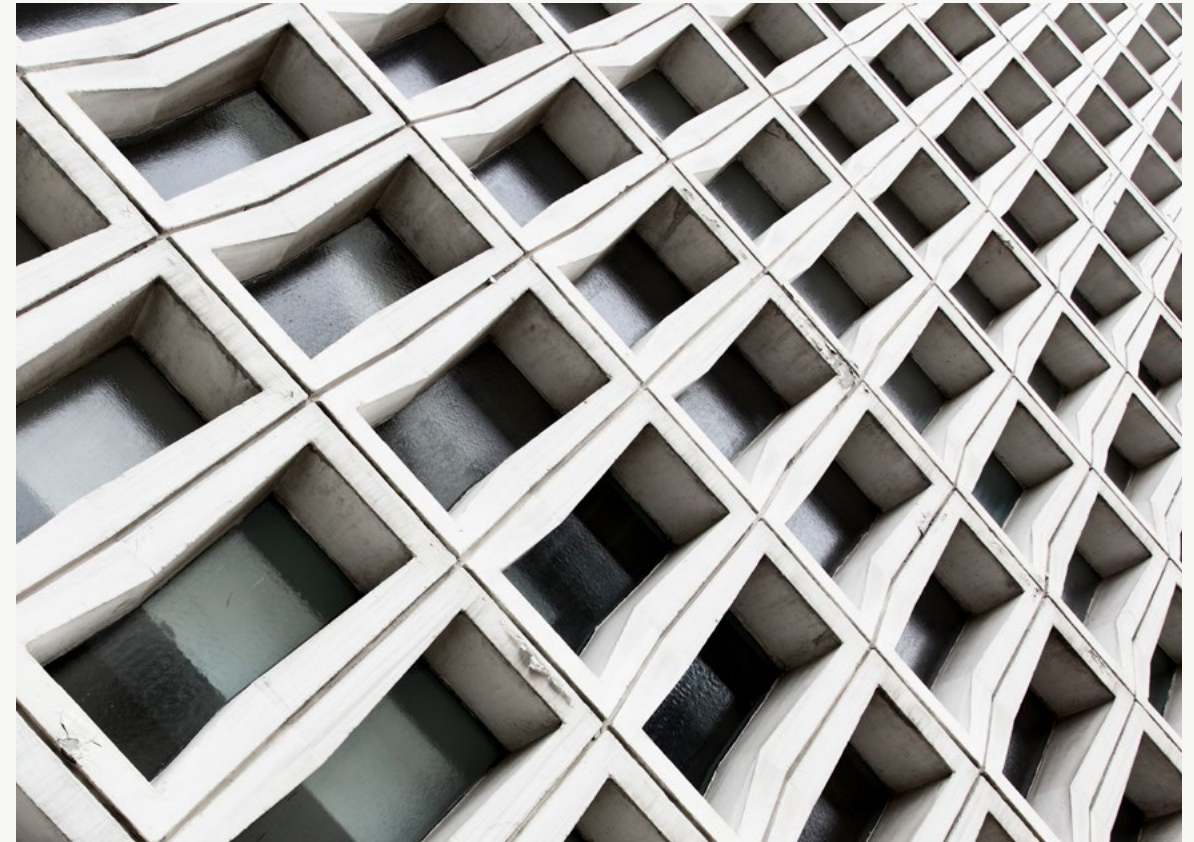
Once you have made your decision, it's time to put together the Agreement to Lease (ATL) and make sure the deal is properly and robustly documented

The deal needs to be captured in an Agreement to Lease – a document which captures the deal and includes standard lease provisions the parties may not normally deal with during the negotiations.

The parties need to ensure the deal is robustly documented so each party has confidence that it will withstand legal rigour and reflect the intentions of the parties at the time it was entered into.

Your lawyer needs to be properly briefed and, once briefed, they should understand the deal and be able to close out any remaining provisions to ensure your liability and risk is limited to the greatest extent possible. Poor drafting may unnecessarily expose you to a cost or expense you had not anticipated.

Use a property lawyer, not a corporate one. Specialist property lawyers understand the typical lease provisions, how various clauses interrelate and will provide good advice where clarity is still required



The deal is likely to be conditional so the Agreement to Lease should state these conditions and the time frames for closing them out.

Remember to make sure the ATL is correctly executed. It may be challenged if a party signing does not have the delegated authority to do so.

Recommended action

- Get solicitors to amend the agreed form of documentation to capture the deal agreed
- Parties to negotiate any remaining terms and conditions when completing documentation
- Confirm any conditions attached have been met or when they will be met
- Obtain remaining approvals
- Execute documentation

Make sure the Agreement to Lease captures the deal in an unambiguous and comprehensive way to avoid disputes later on

Step 9

Think about the way you will work when designing the space – use modern workplace strategies and get good advice

Implementation

Once you've reached your shortlist, it's time to complete the design and fitout of the premises to get them working to your requirements

The final stage is the design and construction of the fitout. It's important to take the commercial deal and transform it into a work environment that achieves the original objectives. Think creatively about how you will use the space.

You will need to appoint consultants to design and manage the fitout. Choose experts that understand where the workplace is heading, how space can be best used for today's workplace practices and who can demonstrate experience.

The best workplace strategists, architects and designers can make a huge difference to **workplace performance**. Also remember to monitor the landlord works and related programme as set out in the Agreement to Lease. Meeting their contractual obligations is essential and will impact on your fitout and implementation plan.

Transitioning staff to a new location offers a massive opportunity to leverage changes in culture and working practice. Developing a change and communication plan is essential.

Recommended action

- Appoint consultants for design, engineering, costing and project management
- Utilise modern workplace practices – engage a workplace strategy consultant
- Contract out the fitout works and construct the fitout
- Procure furniture and soft furnishings
- Integrate technology, HR practice and business process
- Relocate to new premises
- Monitor the landlord's works and obligations



Make your workplace a great place to work and see your teams improve their performance

TwentyTwo

Independent Property Advisers

This guide was created by **TwentyTwo**, New Zealand's largest tenant-only, property advisory firm.

We're in business to change the way organisations make decisions about property so that they achieve best value from **every** decision. And we're succeeding. We're proud to act for many of the nation's **smartest organisations**. We'd love to work for you too.

So how can we help?

- I want a trusted adviser to help me consider better and negotiate better
- I want a strategic view to explore how property can make my business run faster
- I want to ensure that our workplace harnesses the latest thinking and is future fit
- I want one provider who can deliver end-to-end
- I want the most robust, proven process to help me minimise my risks and maximise opportunity

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