

# Talking Leases #1

REIQ

I was recently asked by a commercial salesperson about the focus points in discussing leases with landlords and investors. This article below talks to the issues as I would pursue it and how I would investigate them with the investor.

*Essentially you are trying to explore the main focus points and initiatives that the investor sees as necessary in the performance of the property for them.*

Every investor will likely have a different set of rules and targets as they see it for the performance of the investment for them. Take time to check out these parameters.

So let's have a look at the approach and see if it helps you with your business. Understand that the following items should be put into some form of questionnaire which you should carry with you and work through with the investor. The questionnaire should be formatted for continual use in other interviews so that you provide a professional questioning process.

The issues are:

**The preferred lease term:** find out what the preferred lease term is for the investor and relate it to the potential performance of the property over that time. Obviously the lease of 10 years in an older property that requires refurbishment is not a wise move. Hence the lease term needs to be balanced to the asset and you need to be sure that the asset can perform effectively over a period of time without major or costly changes. Major changes would be for something similar to a refurbishment or partial refurbishment. Your lease when established should support the potential of relocation or termination for renovation. Note that the states of Australia handle this potential differently with regard to Retail Leases and can impose time frames and methods of approach.

*Governments like to protect the retailer more than the landlord in this regard as retailers are regarded as the backbone of small business and society.*

The ideal lease terms for most investors are three to five years and within that period of time there is a need to balance the number and type of rent reviews that allow the rental to escalate. There are various types of rent review methods and the legislation does differ around Australia as to how market reviews are handled particularly with retail property. Ensure that you are aware of the legislation in your state in that regard.

**Option strategy:** options are basically further terms of occupancy at the discretion of the tenant supported under the terms and circumstances of the lease. In Australia understand that options sometimes have some control factors applied through legislation in certain states. Retail is again a real example.

Options are unavoidable in some circumstances as a result of negotiations in new leases, hence you need to consider the potential of the tenants staying on for a longer term and whether the property can satisfactorily accommodate them in that period.