



Acquiring retail property in the UK
A brief guide

National coverage

Typically 40 stores will give retailers full UK coverage.

40

You know you want a property — where do you start?

Much like estate agents, commercial agents are a necessary part of acquiring a new property. Unlike estate agents, however, commercial agency is dealt with by chartered surveyors — firms of professionally qualified individuals who are members of the Royal Institution of Chartered Surveyors.

They are trained to a very high standard and have a rigorous set of professional rules and standards that they must adhere to when buying and selling commercial premises. Most firms of chartered surveyors employ specialist commercial agents.

“The quickest and most efficient way for a retailer to identify suitable premises is usually to employ the services of a commercial property agent to search for premises on their behalf, providing continually updated schedules of potential opportunities.”

Chris January, Head of Retail Agency

What is the agents' role?

Because of their detailed knowledge of the property market, agents:

- have access to market information that is not immediately available to the general public
- can source databases of premises currently available
- have high level contacts with other commercial agents, landlords and other retailers

This mix of market knowledge and professional expertise enables commercial property agents to identify potential opportunities for retailers to acquire suitable premises in their target towns.

“The retail agency team at Gerald Eve has successfully acquired 33 stores in just two years. They are a highly motivated and aggressive team who guarantee results.”

Dr Zu Dong Liu, Managing Director, Dr China

You now have a list of potential premises, but some of the jargon is meaningless...

Commercial property agents often assume clients understand the terminology used every day within their profession. We have set out below some of the phrases that retailers will typically come across when looking for a property...

Freehold

This is where a property is available to buy outright. There would be no lease in place since you would own the premises (similar to buying a house).

Leasehold

This is where you rent a property from a landlord, who is usually the freeholder of the property. You (the tenant) would take a lease from the landlord for a number of years (the lease term) at an annual rent.

The lease is a legally binding contract that sets out the terms on which you are permitted to occupy the premises in return for paying rent to the landlord. The lease covers every aspect of your rights of occupation, including terms such as the use to which you can put the premises, who is responsible for repairing the premises and what provisions there are for periodic rent reviews.

The tenant

If you were taking a lease on a property you would be the ‘tenant’ of the premises.

The lease term

This is the number of years for which the lease you have taken will run. Normally the lease runs from the date on which you take possession of the premises. In the vast majority of cases the length of the lease is open to negotiation between the landlord and tenant prior to the lease being completed. Most leases on retail premises range from between five years and 25 years, and normally in multiples of five year blocks (ie 5,10,15, 20 or 25 years).

Annual rental figure

The rent figure quoted by the landlord is usually exclusive of business rates and other outgoings, and usually is described as an amount "per annum exclusive" (eg £25,000 per annum exclusive, or £25,000 pax). Normally rent is payable quarterly in advance on 25 March, 24 June, 29 September and 25 December.

Periodic rent reviews

Most leases contain a provision that enables the landlord to ‘review’ the rent being paid by the tenant. In the majority of cases rent reviews are on a five yearly basis.

Rent reviews enable landlords to ensure that the income they are receiving from their investment is keeping pace with current market values. Rent reviews are undertaken by considering rents currently being paid by similar premises in the locality.

In the vast majority of cases, rent reviews are undertaken on an ‘upwards only’ basis, meaning that the rent cannot fall at rent review, but can only stay the same or go up. It is for this reason that it is important to ensure that the rent you pay at the start of a new lease is in line with market rents. Your commercial property agent can advise you on this.



Assignment

In some instances you may find that a property is available by way of an assignment of an existing lease.

This means that the existing tenant no longer wishes to trade from the premises and is seeking to sell his lease to another retailer.

If you were to acquire premises by way of assignment you would take over the existing lease from the incumbent retailer. This includes all terms of the existing lease, including the rent that is payable. The drawback is that you have no opportunity to negotiate the terms of the lease directly with the landlord, including the rent payable.

Premium

When acquiring a lease by way of an assignment, you may also find that the existing tenant is seeking a premium for the sale of the lease to you. In other words, the existing tenant wants you to pay a capital sum to buy his lease.

He may be seeking a premium for a number of reasons, such as existing fixtures and fittings, or because the rent he is paying is low compared with similar premises nearby, or because his shop is in a very sought-after location where vacant property rarely becomes available. Your commercial agent is best placed to advise you on these issues.

Rent free

If you are taking a new lease from a landlord, it may be possible to secure a rent free period at the beginning of the lease. This will enable you, for example, to fit out the premises before you start paying rent. The amount usually depends upon the level of interest that a landlord has received in the unit being let.

It is also possible to obtain a rent free period or capital payment when taking an assignment of the premises, especially if the rent for the property is higher than that for other premises in the locality.

Your commercial property agent will be able to advise on the level of rent free — if any — that he can secure on your behalf.

If the lease is “outside the Act”

The Landlord and Tenant Act 1954 was established to ensure that tenants’ rights are protected when taking leases on commercial premises. It came about as a result of a number of instances where tenants with existing leases were thrown out of the premises at the end of their leases or held to ransom by unscrupulous landlords demanding extortionate rents from a tenant to agree a new lease.

Under the terms of the 1954 Act, tenants’ rights to a new lease are protected. Broadly speaking, this means that at the end of the lease the tenant has a right to a new lease on similar terms to the lease that has ended at a market rent.

There are certain grounds on which a landlord can refuse a new lease, but in the event that he is able to fulfill one of those grounds he would have to pay compensation to the tenant for refusing to renew the lease.

When a lease is referred to as being “outside the Act”, it means the lease does not enjoy the protection of the 1954 Act and the tenant would have no right to a new lease when the existing lease expires. This can only be done where the landlord and tenant have agreed to exclude the lease from the protection of the Act, and the agreement has to be documented formally by the courts. It is, however, quite common.

This is particularly important if you are being offered an assignment of a lease “outside the Act” which only has a few years to run before it expires, since there is a real risk the lease will not be renewed, or the landlord will demand an unreasonable rent for a new lease.

Again, your property agent can advise you further on this point.



You've had a look at the premises currently available and are interested in one in particular.

The next stage is to make a formal offer for the premises. This is best done on your behalf by your commercial property agent, as he will undertake all negotiations for you to ensure you obtain the best deal.

The offer he makes will need to be in a certain format and cover a number of areas, and will also encompass the 'standard' clauses that might be required to enable you to trade from the premises.

Once the offer has been made, the landlord or his agent will respond, either accepting or rejecting the offer, or (as in most cases) trying to renegotiate some of the terms — eg the rent you are prepared to pay.

When deciding whether or not to accept an offer, a landlord will consider a number of factors, primarily the **rent** that you are prepared to pay, the **lease term** that you are prepared to take, the **use** to which you want to put the premises, and the financial standing or **covenant** of the tenant (ie you) wanting to take the lease. Why is this?:

Rent

The rent a landlord quotes when offering a new lease is often not the rent he is prepared to accept. It is not unusual for

your adviser to suggest that you offer a rental level below the rent being sought by the landlord. This issue is one of the most common areas which landlords try to negotiate.

Lease Term

It must be remembered that for the landlord, the property on which you want to take a lease is an investment, producing an income in the form of rent. Generally, a landlord will seek to secure as long a lease term as possible because it increases the value of his investment.

Use

Most landlords also carefully consider the use to which you want to put the premises. This can be for a variety of reasons — landlords may be seeking to maintain a diverse range of uses within the premises he owns and, for example, will not want to let all of his premises to competing operators in order to protect his other tenants.

Covenant

This is usually the main point of discussion with any landlord. The quality or 'covenant' of a prospective tenant will have a direct effect upon the value of a landlord's investment.

For example, a national multiple retailer (eg Woolworths) will be viewed as a much stronger Covenant than a local sole trader (eg an independent Baker). This is because the financial standing and trading history of a national multiple retailer is generally much stronger than that of a sole trader.

By letting the premises to the national multiple retailer the landlord is reducing his risk of the tenant failing to pay the rent or fulfill his other obligations under the terms of the lease. If he were to let the premises to the local sole trader there is more risk of the trader going bust and failing to pay the rent. For this reason, you may often find that a landlord requests a Rent Deposit, which is explained in more detail below.



You've nearly agreed terms, but the landlord has asked for a rent deposit. What does that mean?

In some situations, a landlord may request a rent deposit. This is usually because the landlord is concerned about the ability of the tenant to fulfill his rental commitments ie he feels that the tenant has a weak 'covenant'.

The level of rent deposit that the landlord is prepared to accept can range from three months rent to 12 months rent, and your commercial property agent will be able to limit this as much as possible. The terms on which the rent deposit is held will also vary from landlord to landlord, but again your agent will be able to secure as favourable terms as possible. This is an issue that you should consider seriously as inevitably it will tie up capital from the start of your operation.

You've agreed terms with the landlord – what comes next?

At this stage your property agent should instruct your solicitor to proceed with the legal documentation to enable you to complete the acquisition of the unit in question. These instructions will need to be confirmed by yourself to the solicitor as being, in principle, acceptable.

A good property agent will comment on the lease you are about to take and will make various suggestions as to how the lease terms should be altered prior to

completion in order to ensure you take a lease that contains few onerous obligations on the part of the tenant.

At this stage you should also consider making a planning application for signage at the premises and for any other works that you intend to do at the property that will require formal planning consent. This is important in any event, but especially so in the case of Listed Buildings where failure to obtain Planning Consent prior to undertaking works affecting the structure or appearance of the premises can have very serious results.

Documentation often takes some time to complete since the paperwork is somewhat technical and in order to secure the best lease possible it is likely your solicitor will need to make alterations to the proposed lease on several occasions.

Once documentation has completed formally, you will receive the keys to the premises and you can move in to commence shop fitting.

Strong relationships

90% of our clients have been with us more than five years.

90%

We hope that the issues covered by this document are of some assistance in understanding the commercial property acquisition process. Our Retail team provides a full retail and leisure agency service across the UK, dealing with high streets, shopping centres, retail parks and leisure parks.

Our track record

We have a proven and highly respected track record in undertaking acquisition programmes for a wide variety of national and international clients.

Our clients' brands include:

Aspinalls
Batemans Opticians
Budgens
Caffè Nero
Care UK
Costa Coffee
Dr China
Fullers
Gold's Gym
HSS
KFC
Little Chef
Marks and Spencer
Megabowl
Mr Prezel
Nationwide
Ocean
Odeon
Papa John
Past Times
Premier
Retail Variations
Sofa Sofa
Subway
The Post Office
Travel Inn
Travelodge

Why use us?

Below are four reasons why you should appoint us as your property agent:

National coverage

We have retail property agents in each of our 11 regional offices. Our clients are assured of in-depth market knowledge across the whole of the UK.

Partners and associates do your work

We have one of the highest partner-client ratios within the property sector. This is because experienced people create better results for our clients.

A single point of contact

Each of our clients have a main client partner who co-ordinates all of your work, regardless of its location, to deliver you a completely seamless service.

Working with you

Our ethos is to work with our clients, fully understanding their business and business objectives.

A list of services we can offer is as follows:

- market research
- acquisitions
- disposals
- asset management
- rent reviews
- lease renewals
- rating advice
- valuation

Strategic advice

We are experienced in providing strategic advice on property expansion and disposals, locations and site selection.

We work closely with our research team and our regional offices to provide a well rounded service.



Chris January

Tel. 020 7333 6326
cjanuary@geraldeve.com



Mark Hillier

Tel. 020 7333 6205
mhillier@geraldeve.com



Richard Souber

Tel. 020 7333 6328
rsouber@geraldeve.com



Dominic Tomlinson

Tel. 020 7333 6232
dtomlinson@geraldeve.com

About Gerald Eve

We are one of the UK's top 20 property consultants, with 11 offices spread across the country.

We offer a range of consultancy, corporate asset management and transaction-related services and currently act for more than one-third of FTSE100 companies.

Our retail agency team has a proven track record across the whole of the UK.

For more information, please visit our website at www.geraldeve.com or contact one of the team above.

UK office network:

London (West End)

London (City)

Belfast

Birmingham

Cardiff

Glasgow

Leeds

Liverpool

Manchester

Milton Keynes

Newcastle