

Your lease will state what happens if you can't come to a negotiated settlement with your landlord.

WHO CAN HELP ME?

If you have a rent review you would be well advised to get an expert to represent you.

Your landlord will almost certainly instruct a surveyor to negotiate for him/her. The tenant can instruct his/her own surveyor as well. The surveyor will have an expert knowledge of the area and be able to measure your shop accurately.

The services of a surveyor will cost you money (usually between 5% and 10% of the final rent agreed) but they could save you thousands of pounds over the course of the review period.

Also it is worth remembering that whatever you agree to pay sets a precedent for other traders in the street who have rent reviews after you. None of them will thank you for agreeing to a rent that sets an unsustainable precedent.

If you are a member of a traders association they may be able to help you as well.

POINTS TO REMEMBER

- Most leases do not allow for the rent to go down but it might stay the same.
- You do not *have* to accept the landlord's proposed rent increase
- Any increase in rent has to be justified by evidence
- The evidence has to be from new leases or rent reviews of comparable properties in the same street or area
- It has to be reasonably current
- Sometimes the evidence is complicated and does not lead to a firm conclusion.
- If you cannot agree with your landlord your lease will include the details of the procedure you must both follow to reach a settlement.
- You would be wise to get professional representation



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Rent Reviews & How to Survive them



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WHAT IS A RENT REVIEW?

Most leases for commercial property that are longer than 5 years and within the terms of the **Landlord & Tenant Act (1954)**, will have a clause which allows for the annual rent to be “reviewed”.

They will also probably say that the such rent reviews will be “upward only” which means that the rent can’t go down although it might stay the same.

What this review effectively means is that the landlord will ask for an increase in rent which will be set for the next “review period” which can be anything from 3 to five years. The length of the “review period” will be given in the lease

HOW MUCH INCREASE?

The landlord cannot just pick a figure out of the air (although in practice some do!). The landlord has to be able to provide evidence to justify any increase.

This evidence is taken from other comparable properties in the same street or immediate area, which have recently had rent reviews or lease renewals.

The best evidence comes from a **new lease** for a **similar** property in the **same** street. Whatever rent a new tenant is willing to pay for a property will set the “market rate” or “going rate”.

The next best evidence is from a **rent review** for a **similar** property in the **same** street.

If there are no properties in the same street that have either had a new lease or a rent review within the last few months then

similar properties in streets nearby can be considered. The properties should be “comparable”. Evidence from a large department store cannot be used for the review of a small shop even if they are in the same street.

Also, if the street is very long there may be material differences between one end and the other which will give completely different values. Also if your lease has restrictive covenants (e.g. the shop can only be used as a newsagent) then this will reduce the value of the rent.

HOW ARE PROPERTIES COMPARED?

The shop floor is divided into zones. Each zone has a different value.

The most valuable space is considered to be the first 20 feet from the shop window. This is called “Zone A”.

The next 20 feet is called Zone B and this is worth only half as much as Zone A. The next 20 feet is Zone C and this is worth half of Zone B etc.

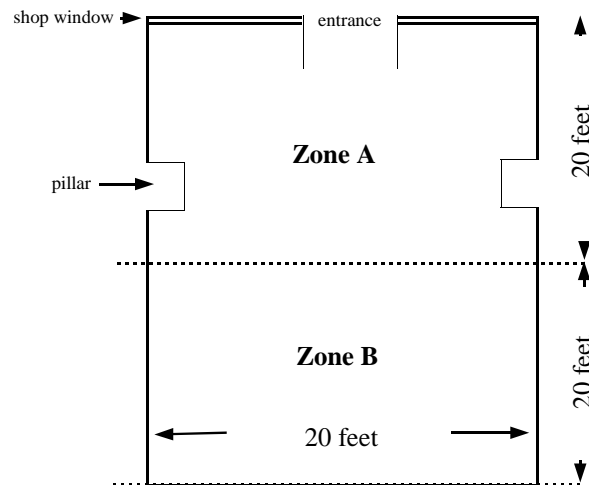


Diagram 1

Rents are expressed “in terms of Zone A.” or ITZA for short.

So, for example, a shop with an internal width of 20 foot will have 400 sq feet of Zone A space ($20 \times 20 = 400$). If it is deep enough the next 20 ft will give 400 sq ft of Zone B but because this is only worth half of Zone A we say that it is the **equivalent** of 200 feet of Zone A space.

So the area of the shop “in terms of Zone A” is 600 sq feet ($400 + 200 = 600$)

When the shop is measured so that the exact value of ITZA is known, an annual rent can be worked out based on the ITZA figure multiplied by the “going rate” per sq ft for rent in the street.

Note that in the shop in Diagram 1 the floor area in Zone A would not include the pillars. What can and cannot be included when measuring a shop is subject to a set of rules laid down by the Royal Institute of Chartered Surveyors (RICS)

The exact Zone A rate will vary depending on where the shop is located. Shops in a big shopping centre will have a higher Zone A rate than a shop in a secondary retail area because it has a better retail location.

The Zone A rate in any street is changing all the time as new leases or rent reviews set new precedents.

WHAT HAPPENS IF WE CAN'T AGREE

Your landlord has to be able to quote the details of new leases or rent reviews (precedents) to be able to justify the rent he is asking you to pay.

Often there may be conflicting evidence from several reviews and/or new leases which does not lend itself to a clear cut conclusion. In this case you might have to reach a compromise with your landlord.