

IAVI Retail Rent Renegotiations Survey

The Commercial Panel on IAVI National Council recently carried out a survey of members actively involved in retail rent renegotiations. The purpose of the survey was to gain an insight into rent renegotiations taking place between landlords and tenants **outside of the formal rent review process.**

135 respondents completed the survey on behalf of their firms located around the country.

The issue of retail rents has dominated the property market over the last 12 months and indeed there has been a significant amount of media reporting on it. In order to get a better picture of what exactly has been happening in the market in relation to the renegotiation of rents outside the normal rent review procedures, we issued a questionnaire to members who specialise in the retail market acting for either landlords or tenants or both. The results of this survey are published on the following pages.

Initially much discussion centred on the banning of upward-only rent reviews by the Minister earlier this year, but in our view the real issue was that many, not all, retailers were struggling to survive as the rents they had committed to were now in excess of what they could afford and as these were existing leases (and were not affected by the introduction of the ban on upward only rent reviews), the new arrangements would have no positive affect on them.

The IAVI has consistently advised that this was the real issue, rather than rent reviews, and issued a guidance note to members in April 2009 as to how to approach discussions concerning this topic. Our members had advised that most landlords, when approached by their tenants, had been willing to enter into discussions to revise rent levels and indeed have re-affirmed this in this survey with the majority of respondents reporting that landlords were adopting a flexible approach.

Unsurprisingly, landlords seem to be insisting on reviewing the retailer's financial accounts so that they can be reassured that firstly a rent reduction is needed and also to get guidance as to what level of reduction would be required.

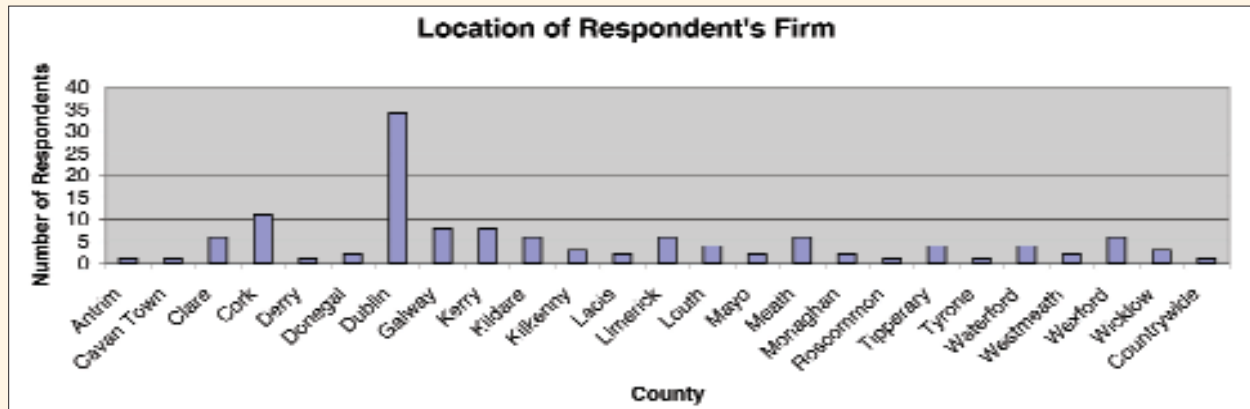
While in question 6, out of 130 respondents 62 reported that the tenant's approach to rent renegotiations was somewhat flexible and that they may accept a rent freeze on rent review but would prefer a rent reduction. 53 respondents reported that the tenant's approach was inflexible and that tenants were insisting on a rent reduction. This is not surprising as the only acceptable solution for most of them would have been a rent reduction.

As part of the survey, respondents could add additional comments in relation to any question or the survey as a whole. In summarising these there seems to be a consistent view that we now have a two tier market, those with older leases incorporating upward only reviews and newer leases which are either upward or downward or contain other variations such as turnover based rents.

In question 11, while the majority saw a ban on upward only reviews as equitable, it was largely viewed as unnecessary as the market was already responding to this by way of shorter leases and turnover rents. There were also concerns expressed about the medium to long term affect this could have on new development and the attractiveness of property as an investment vehicle.

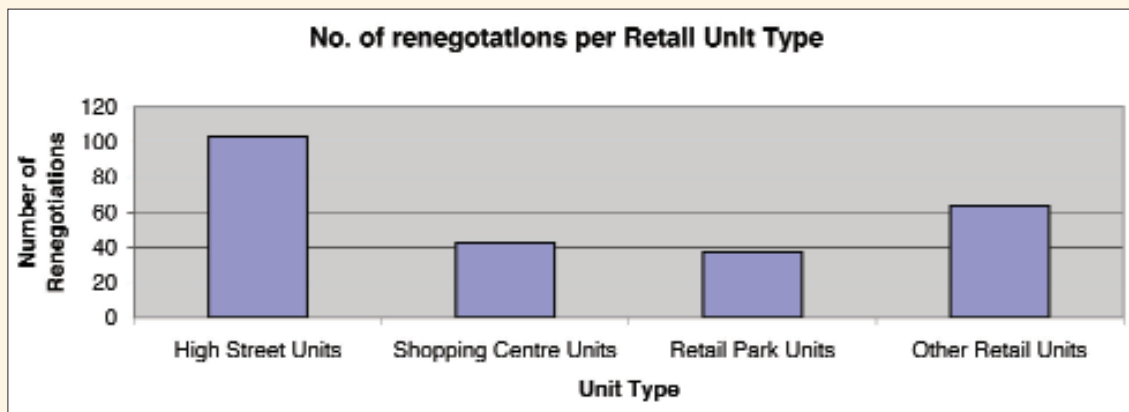
In summary, while we are all aware that there are and will continue to be, unreasonable tenants and landlords, the results of this survey suggest that the majority seem to be making real efforts to find mutually beneficial solutions to their current problems.

Q1: What is the location of your firm?



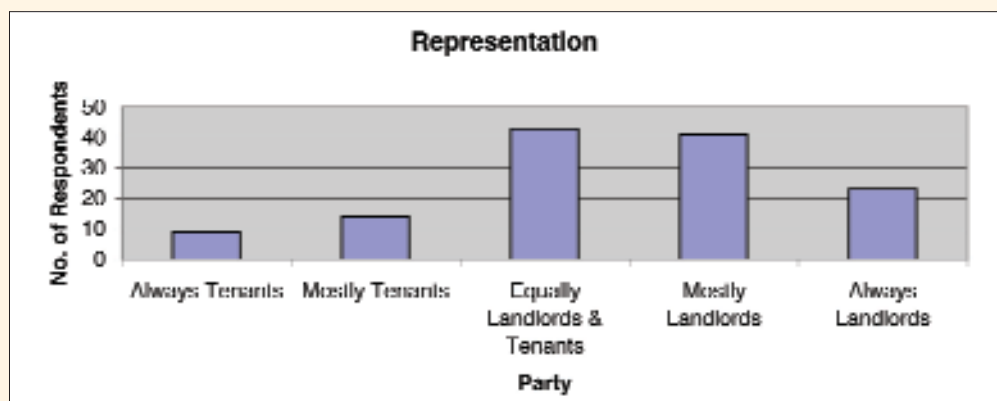
The highest number of respondents were from Dublin (34), Cork (11), Galway (8), Kerry (8), Wexford (6), Meath (6), Limerick (6) and Clare (6). Please note that only one respondent from each firm who is actively involved in retail rent renegotiations was asked to complete the survey.

Q2: Approximately how many RETAIL RENT RENEGOTIATIONS was your firm involved in over the past 12 months (i.e. March 2009 - February 2010)?



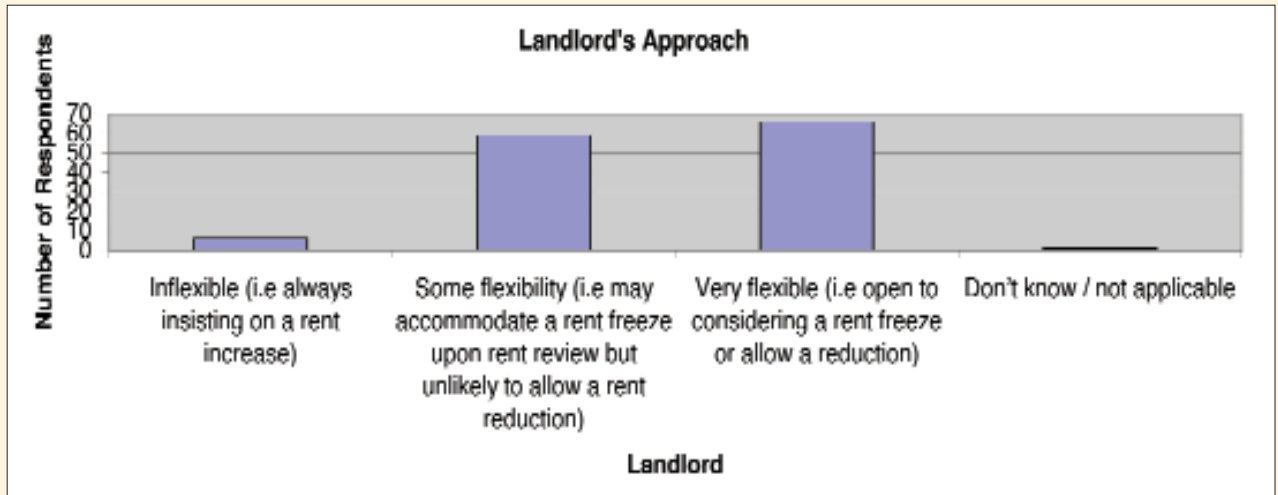
A total of 247 retail rent renegotiations were carried out by IAVI members who answered the survey on behalf of their firm between March 2009- February 2010. The largest number of retail rent renegotiations carried out by respondents were for High Street Units (103), Other Retail Units (64), Shopping Centre Units (43) and Retail Park Units (37).

Q3: Who did your firm represent most frequently in RETAIL RENT RENEGOTIATIONS during the last twelve months?



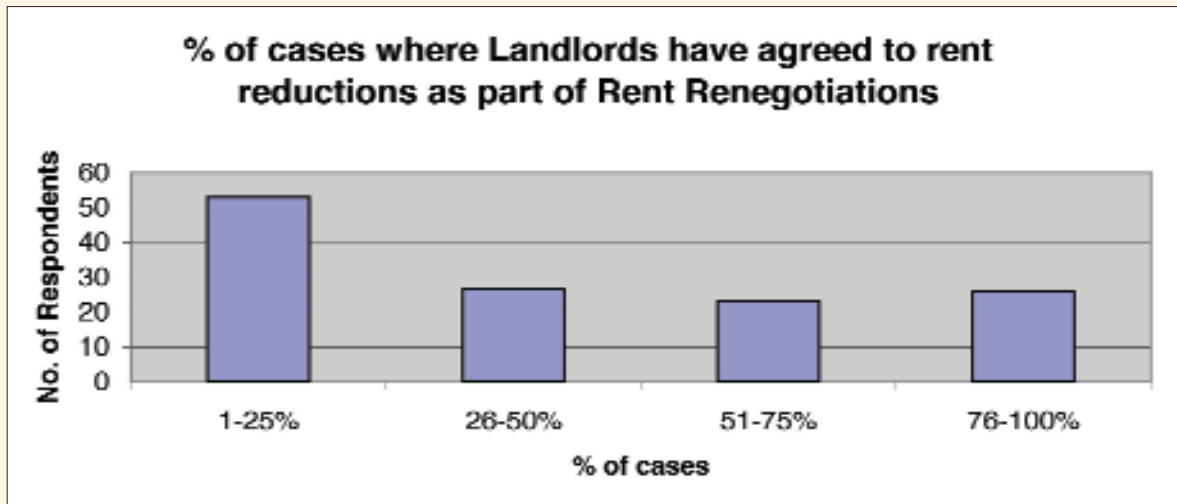
Out of 130 respondents, the majority represented equally Landlords and Tenants (43) and Mostly Landlords (41) in retail rent renegotiations. This shows that respondents have a broad range of experience in representing both Landlords and Tenants.

Q4: In your firm’s experience, what was the LANDLORD’S approach to RENT RENEGOTIATIONS over the past twelve months? (if applicable)



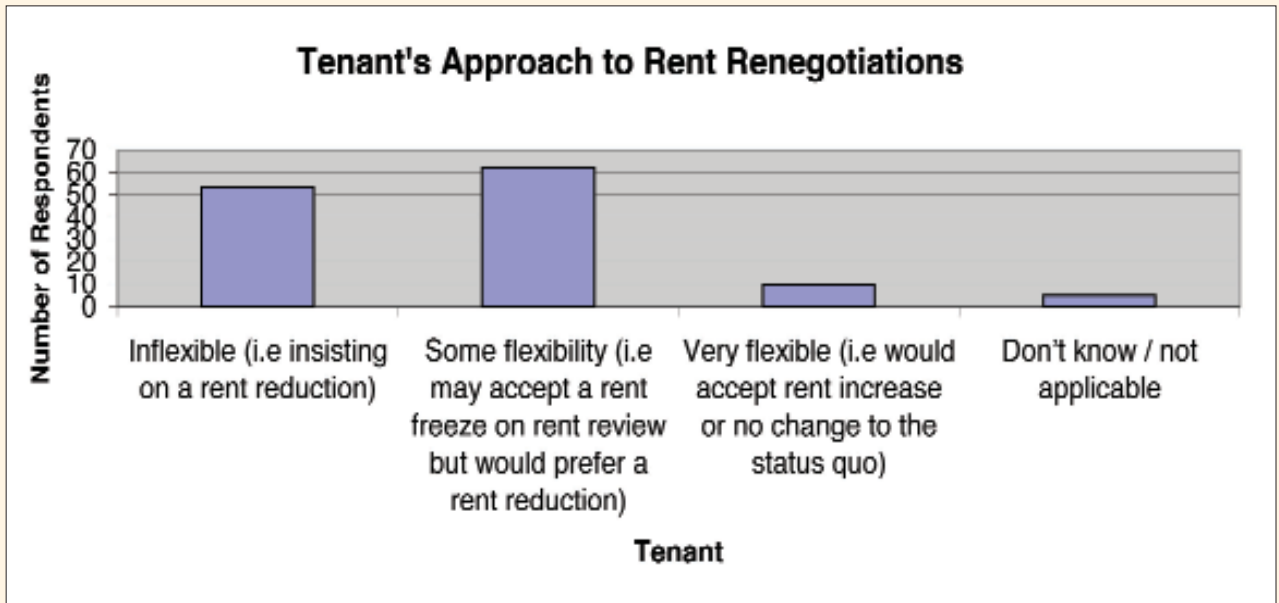
Out of 132 respondents, half (66) said that in their experience, landlords were very flexible in their approach to retail rent renegotiations over the past 12 months and would consider a rent freeze or allow a rent reduction. 59 respondents said that in their experience there was *some* flexibility in the landlord’s approach to renegotiations and that landlords may accommodate a rent freeze upon rent review but were unlikely to allow a rent reduction.

Q5: Generally speaking, in what percentage of cases in which your firm was involved were LANDLORDS willing to give a RENT REDUCTION as part of a rent renegotiation over the past twelve months?



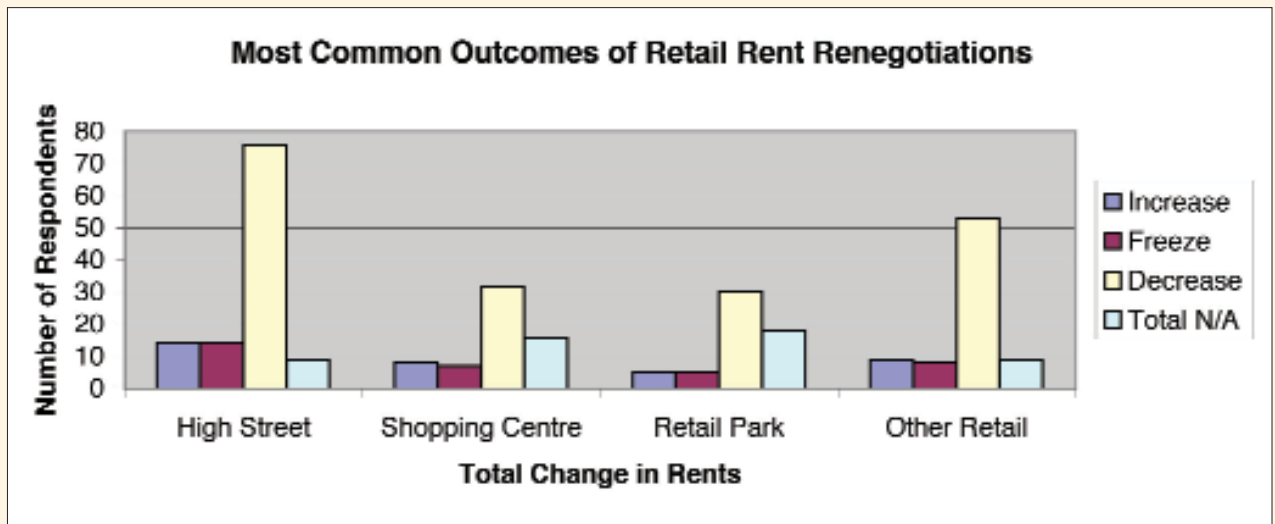
Out of 129 respondents, 53 reported that generally speaking, landlords were willing to give rent reductions in up to 25% of cases. 27 respondents reported that landlords were willing to give rent reductions in between 26-50% of cases. 23 reported that landlords were willing to give rent reductions in between 51-75% of cases and 26 reported that landlords were willing to give rent reductions in between 76-100% of cases.

Q6: In your firm’s experience, what was the TENANT’S approach to rent renegotiations over the past twelve months? (If applicable)



Out of 130 respondents, 62 reported that in their experience the tenant’s approach to rent renegotiations was somewhat flexible and that they may accept a rent freeze on rent review but would prefer a rent reduction. 53 respondents reported that the tenant’s approach was inflexible and that tenants were insisting on a rent reduction.

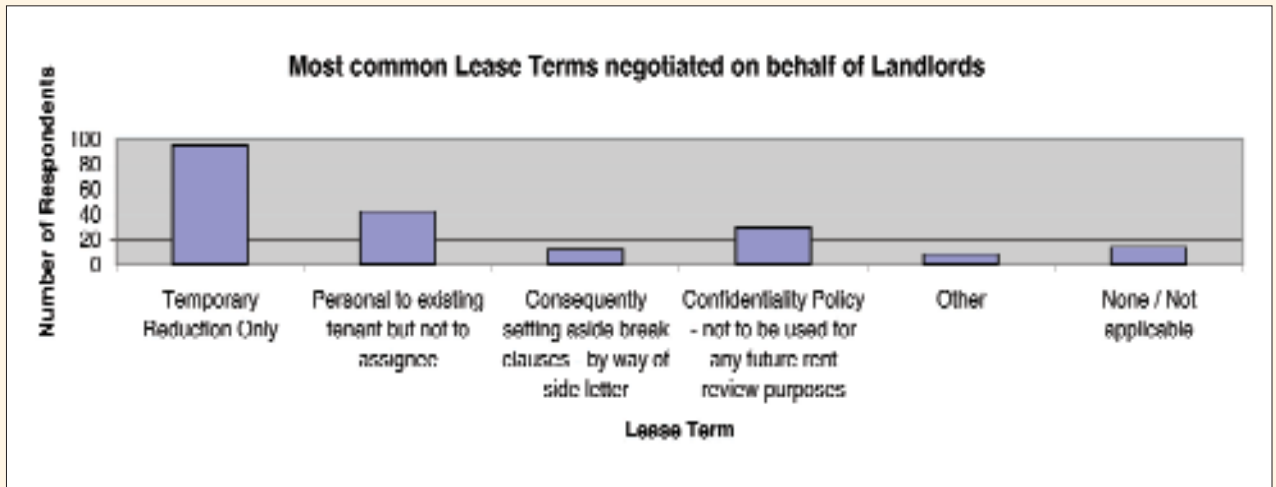
Q7: What were the most common outcomes on RENTS in RENEGOTIATIONS that your firm was involved in over the last twelve months?



The most common outcome of Retail rent renegotiations over the past 12 months according to respondents was a decrease in rents for High Street (76 cases), Shopping Centre (32 cases), Retail Park (30 cases) and Other Retail (53 cases).

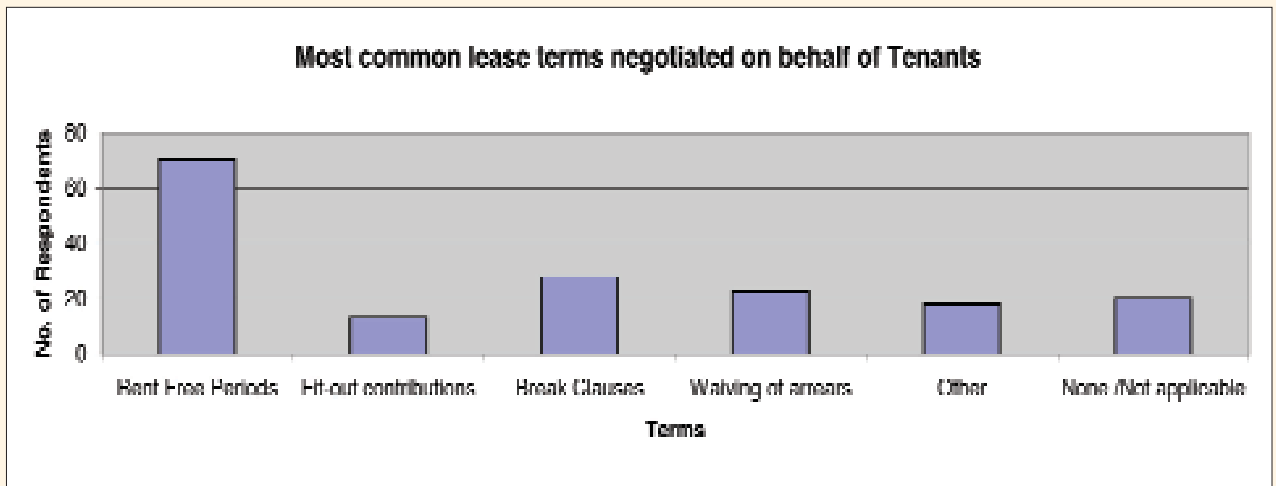
The most common outcomes as a result of the retail rent renegotiations across all retail property types was a decrease in rents of 10-20% (75 cases) followed by a decrease in rents of 21-30% (69 cases).

Q8: What were the most common TERMS renegotiated by your firm on behalf of LANDLORDS over the past twelve months? (If applicable)



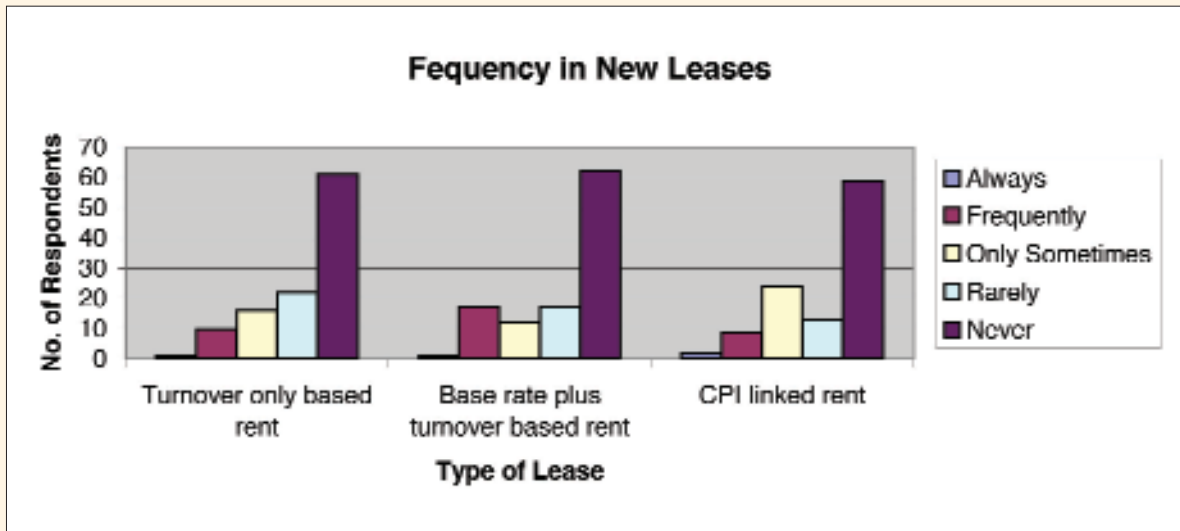
‘Temporary Reduction Only’ was the most common term negotiated by their firm on behalf of **landlords** according to 95 respondents.

Q9: What were the most common TERMS renegotiated by you on behalf of TENANTS over the past twelve months? (If applicable)



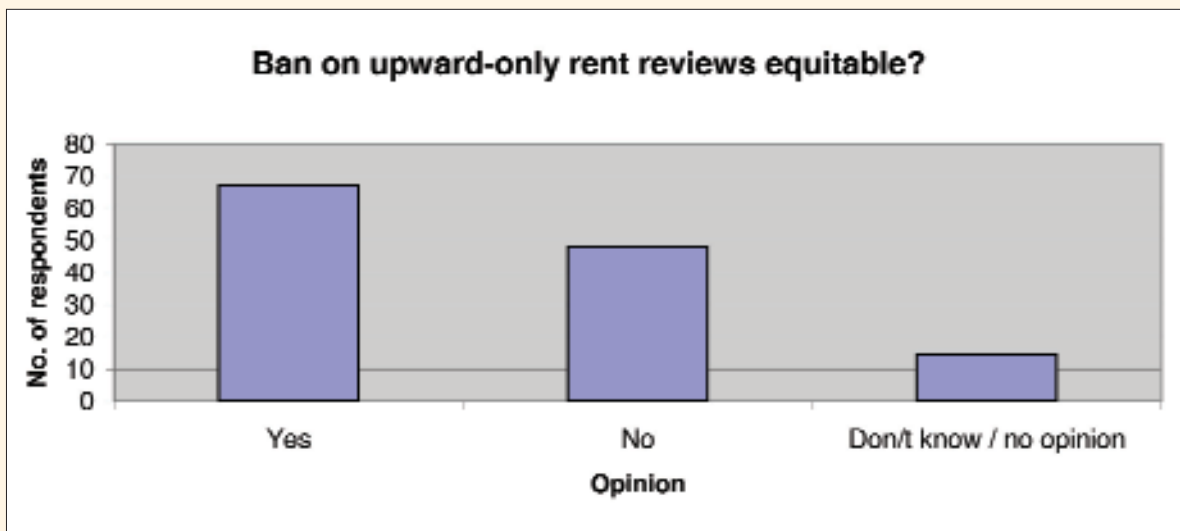
‘Rent Free Periods’ was the most common term negotiated by their firm on behalf of **tenants** according to 70 respondents.

Q10: How often have the following appeared in NEW retail leases your firm has negotiated over the last twelve months?



According to respondents, there is currently a relatively low level of adoption of Turnover Only Based Rent, Base Rate plus Turnover Based Rent or CPI linked Rent in new retail leases negotiated between March 2009 and February 2010.

Q11: Does your firm view the introduction of legislation to ban upward only rent reviews by Government as equitable?



Out of 130 respondents, 67 reported that they viewed the ban on upward only rent reviews as equitable while 48 viewed the ban as inequitable.

Please Note:

The question relating to the equity of the ban on upward-only rent reviews was issued to members following the introduction of the ban. The question seeks to assess members' current sentiment in relation to the ban and may not reflect the views of the respondents' firm.