# Top 5 tips for negotiating a lease for financial services businesses

By Sarah Roettgers, Partner - Hamilton Locke

Securing the perfect premises is crucial for the growth and success of financial services businesses in Australia. Here are our top 5 tips to help you negotiate an effective lease, considering the key terms and conditions specific to lease agreements for financial services businesses.

### TIP 1: Determine the optimal lease term and renewal options

Lease terms in Australia can vary significantly, with some as short as 1-2 years and others extending up to 10 years or more. Financial services businesses should carefully consider the optimal lease term based on projected growth and future space requirements.

If your business is in a growth phase, consider negotiating a shorter lease term to give yourself the flexibility to move to a larger space if needed. If you plan to stay in the space for an extended period, negotiating a longer lease term can provide stability and potentially lower rent.

Review the current market conditions to determine the typical lease term length in your preferred location. If the market is competitive, landlords may be willing to negotiate shorter lease terms.

In addition, negotiating options for renewal can provide security and flexibility. Renewal options allow a financial services business to extend its lease for a predetermined period at the end of the initial term. This option can provide flexibility if your business needs are uncertain when negotiating the lease.

### TIP 2: Negotiate favourable rent reviews

Rent reviews are an essential aspect of lease negotiations for financial services businesses. These reviews determine how the rent will be adjusted throughout the lease term, typically occurring annually. Australia has various rent review mechanisms, such as fixed percentage increases, Consumer Price Index (CPI) increases or market rent reviews.

It is crucial for businesses to negotiate rent reviews that are favourable and sustainable to ensure long-term financial stability. For example, consider capping the maximum percentage increase or opting for a review mechanism that reflects the current market conditions on exercise of an option to renew.

Researching the current market conditions before negotiating a rent review is important. This includes reviewing rental rates for comparable premises in your preferred location, vacancy rates and any upcoming development that may affect the demand for commercial space.

### TIP 3: Understand the difference between a gross lease and a net lease

In Australia, leases are classified into one of two categories: gross or net leases.

In a gross lease, the landlord is responsible for paying all operating expenses of the premises, for example, property taxes, insurance, maintenance and utilities. The tenant pays a fixed rent, which includes all these expenses. In contrast, under a net lease, the tenant is responsible for paying a portion of the operating expenses in addition to the rent.

For financial services businesses, assessing the potential costs and benefits of each lease type is essential. A gross lease may provide greater predictability in rental costs and lower responsibility for property expenses. In contrast, a net lease offers more control over property expenses and flexibility to negotiate lower rental payments.

### TIP 4: Clarify responsibilities for repairs and maintenance

In commercial leases, allocating responsibility for repairs and maintenance is a critical negotiation point. Generally, landlords are responsible for structural repairs, while tenants handle internal maintenance and repairs. However, specific terms can vary between leases, and clearly defining each party's responsibilities in the lease is essential.

Financial services businesses should be aware of their maintenance obligations and budget for these costs accordingly. Negotiating a fair allocation of responsibilities (including everything from minor repairs, such as changing light bulbs, to major repairs, such as fixing structural issues) can help avoid unexpected expenses and potential disputes during the lease term.

### TIP 5: Consider your 'make good' obligations when the lease expires

Make good provisions are an important aspect of lease negotiations, as they stipulate the tenant's obligations to reinstate the premises at the end of the lease. Before negotiating the make good provisions, it is important to understand the property's existing condition and be clear on the scope of the make good obligations.

Financial services businesses should conduct a thorough inspection of the premises and take photos to document the condition of the premises.

When negotiating the scope of the make good obligations in the lease, you should include a detailed description of what the tenant is responsible for, such as removing fixtures or returning property to its original condition. It is also important to be clear about what the landlord is responsible for, such as repairing any pre-existing damage. Financial services businesses should also negotiate a reasonable standard for the make good obligations, which should take into account any wear and tear that occurs during the lease term.

## Conclusion

**Negotiating a lease for financial services businesses in Australia requires a thorough understanding of key terms and conditions unique to the Australian market. By considering factors such as lease term, rent reviews, outgoings, repairs and maintenance and make good obligations, financial services businesses can secure a lease that aligns with their strategic objectives and financial goals. Engaging in comprehensive negotiations and seeking expert advice from both property professionals and legal advisors can help financial services businesses achieve favourable lease terms that support their long-term success in the Australian market.**

## Key Contacts

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Sarah leverages her expertise, technical ability and enthusiastic approach to understand her client's business needs and deliver strong results. Her extensive experience in commercial real estate matters includes capital transactions, property development, acquisitions and disposals, residential land subdivisions, commercial, retail and industrial leasing and large-scale infrastructure projects.

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John specialises in property development, major tenancy leasing, sales, acquisitions and property dispute resolution. With over 20 years' experience in private practice, as well as in-house counsel, John is experienced in mergers and acquisitions, corporate governance, litigation, as well as construction, environmental and planning law.



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