RIAA Barker Gillette

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Lease renewals where there's disrepair – Landlords beware!

You're a landlord and having agreed a lease renewal with your tenant, you're obviously keen to get that in place ASAP. But before you rush ahead, have you considered dilapidations and the reinstatement of alterations?

It is critical to consider how to carry forward any outstanding dilapidations liability to a renewal lease. The best way is to agree a dilapidations schedule and attach it to the renewal lease. The schedule should be unpriced, just listing the breaches and remedies required, because costs will change during the term of the renewal lease and it avoids having an argument about costs at this stage. However, agreeing such a schedule may still be contentious and could take some time to agree.

It is likely to make more commercial sense to get the renewal lease and any increased rent in place, with the question of dilapidations being postponed to the expiry of the renewal lease. This can be achieved by the inclusion of appropriate wording in the renewal lease.

The other key point to consider is that any alterations carried out under the previous lease will, on the grant of the renewal lease, form part of the premises. This means that at the expiry of the renewal lease, the landlord may not then be able to require the tenant to reinstate those alterations. It may also be problematic for tenants because those works could then be rentalised on any rent review under the renewal lease. Again, this is something that can be addressed in the wording of the renewal lease.

Dilapidations and reinstatement can amount to vast amounts of money and should always be properly considered with professional advice.

If you have a lease renewal coming up, call Michael Goodman today to discuss your options.

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Click here to make an appointment