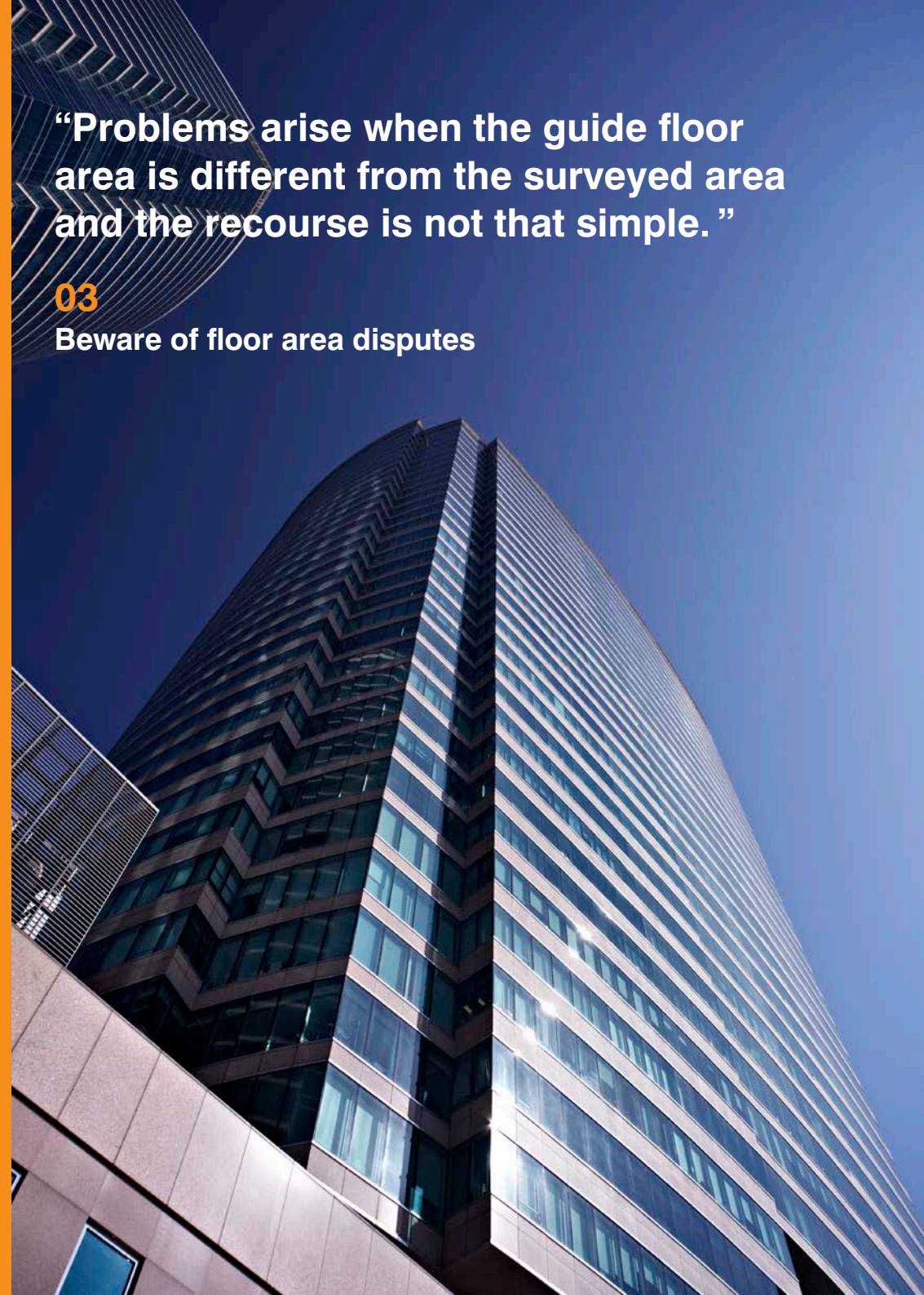


Six Common Banana Skins To Look Out For

“Problems arise when the guide floor area is different from the surveyed area and the recourse is not that simple.”

03

Beware of floor area disputes



Picking a unit that is either too small or too large for you


01

This is such a critical issue that can often be over-estimated or under-estimated. It is imperative the tenant engages a space planner / designer at the mid-stages of site selection as your preferred unit of choice may seem large enough but the shape/ configuration could mean that you seriously constrained.

Often bare units look larger than fitted units. Conversely many companies often err on the side of caution and choose a space slightly larger than their initial needs (budget permitting), to allow for future expansion.

This is a sensible decision but could lead to surplus space being underutilized only to find out they will have significant surplus space which they are unable to utilize or sublease.

It is imperative the tenant engages a space planner or designer at the mid-stages of site selection



Many companies often err on the side of caution and choose a space slightly larger than their initial needs (budget permitting), to allow for future expansion.

Leasing fitted space – watch out for any major reinstatement costs

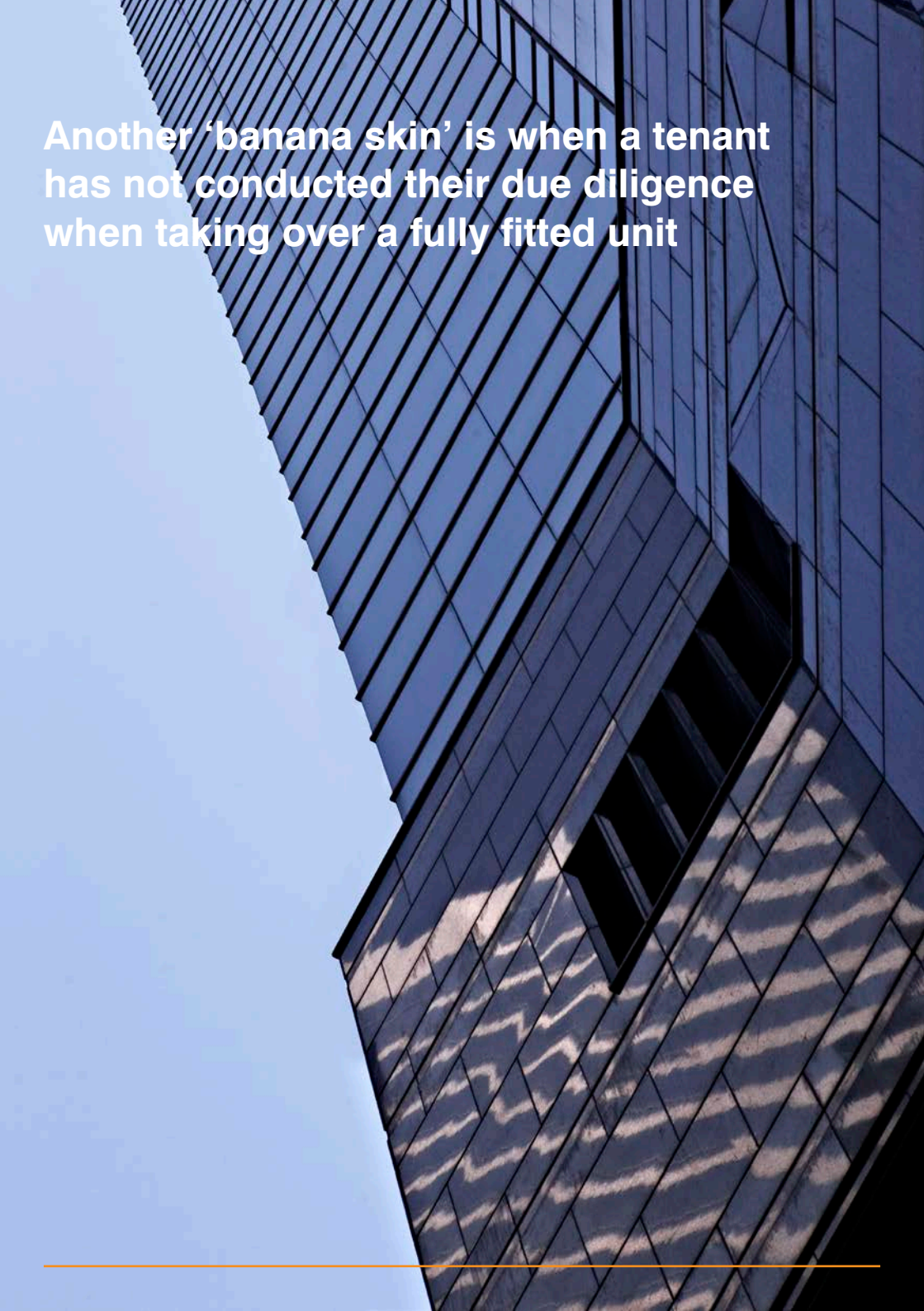
02

Another ‘banana skin’ is when a tenant has not conducted their due diligence when taking over a fully fitted unit. Often tenants are overjoyed when they find a fully fitted office that suits their space requirements. Usually such cases are ‘Win Win’ situations where the ingoing tenant takes over all fixtures and fittings at nil or nominal costs and the outgoing tenant saves the cost of reinstating the premise.

However, the ingoing tenant needs to be very careful to check the original condition of the premises, before the previous tenant moved in. This is because the new tenant will take over the responsibility for reinstating and it is critical to know what needs to be put back.

Sometimes the landlord has used very expensive ceiling tiles which the previous tenant replaced, sometimes air-conduction ducts have been moved and often sprinkler heads are moved to comply with building regulations and all these features will need to be reinstated. The major cost items are usually in the ceiling including the features just mentioned, so it is crucial to check the original condition or you could end up with a very nasty shock.

Also it is important to check that the current fit-out/design had all the required building regulation and Fire Safety Bureau approvals which should also have been verified by the landlord.



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Beware of floor area disputes

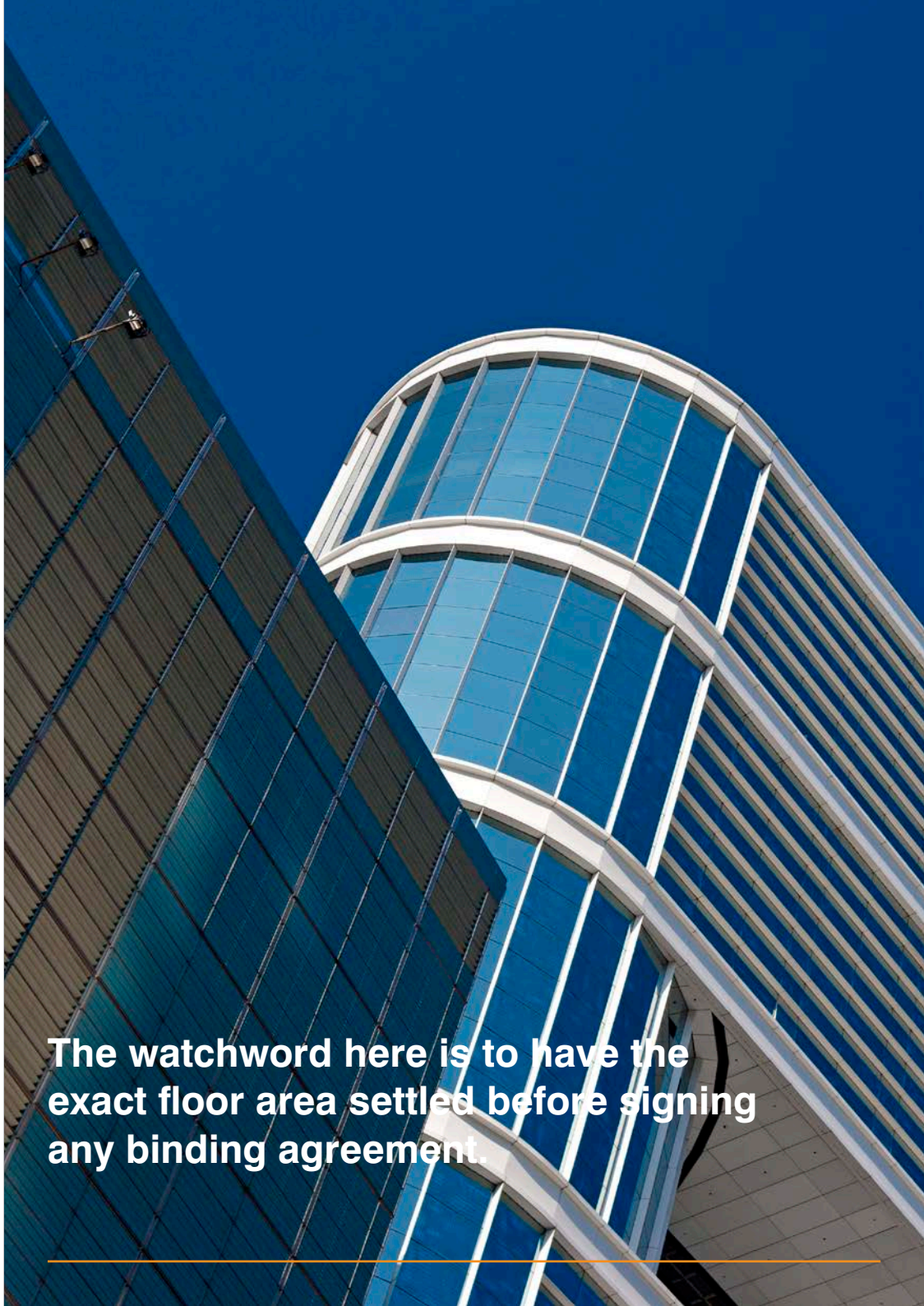
03

In many cases office space is leased on the basis that the floor area is subject to survey. **This is particularly common with new developments or where larger units have been subdivided.** Some Letters of Offer are marked 'Subject to Contract' and the floor area is 'Subject to Survey', so is not binding except for loss of security deposit.

However some Letters of Offer are binding and when the floor area is 'Subject to Survey' problems arise when the guide floor area is very different from the surveyed area and the recourse is not that simple.

The watchword here is to have the exact floor area settled before signing any binding agreement. However, in some cases it is not always that easy particularly when the tenant is on a tight timescale and may have to start fitting out before the area has been finally determined. **So allow plenty of time to cover issues like this.**

Problems arise when the guide floor area is different from the surveyed area and the recourse is not that simple.



The watchword here is to have the exact floor area settled before signing any binding agreement.

Beware of Occupational Loading Regulations

04

This is a particular problem with larger space users. Some banks in the newer developments found they were planning to house too many staff on one floor. It is important that your designer briefs you on the **rules and regulations on over loading floors and exceeding human density allowances**.

The occupancy load of the floor is the driver which ultimately determines the permitted headcount and will be set out in the fire certificate for the building. The occupancy load is calculated based on the uses of certain areas within the floor. **The current allocation according to use is as follows (see table on right).**

So for instance, if you had a 50 sqm reception, that would imply a notional occupancy load of 17 persons (50 divided by 3 = 16.660) for that area. Therefore, by way of a worked example, if you have a floor with an OL of 300 and you are analyzing the proposed tenant layout plan, you would need to deduct 17 from 300 = 283. You continue to analyse the layout plan, space by space.

Let's assume there is a meeting room of 35 sqm – the loading for meeting rooms is 1.5 person psm (35 divided by 1.5 = 23) so you deduct this from 283 = 260. The procedure is continued to cover all usages. If the OL exceeds 300, which is the max permitted, then the designer will need to be more creative in the allocation of space.

<i>Useage</i>	<i>sq m / per person</i>
Reception Area	3.0
Lobby/Corridors non-simultaneous	
Waiting Area/Visitors Lounge	3.0
Admin Office	10.0
Business Centre	10.0
Meeting/Seminar Room	1.5
Archive/Library Stack Area	10.0
Reading Area	5.0
Filing Room/Store	10.0
Computer Room	5.0
Design Studio	5.0
Drafting Office	5.0
Trading Floor	2.0
Trading Gallery	1.5
Banking Hall	3.0
Deposit/Strong Room	30.0
Machine/Printing Room*(2)	10.0
Staff Canteen	1.5
Toilets non-simultaneous	
Storage Area	30.0
Mechanical Plant Room	30.0

Redevelopment clause – make sure there is a minimum term

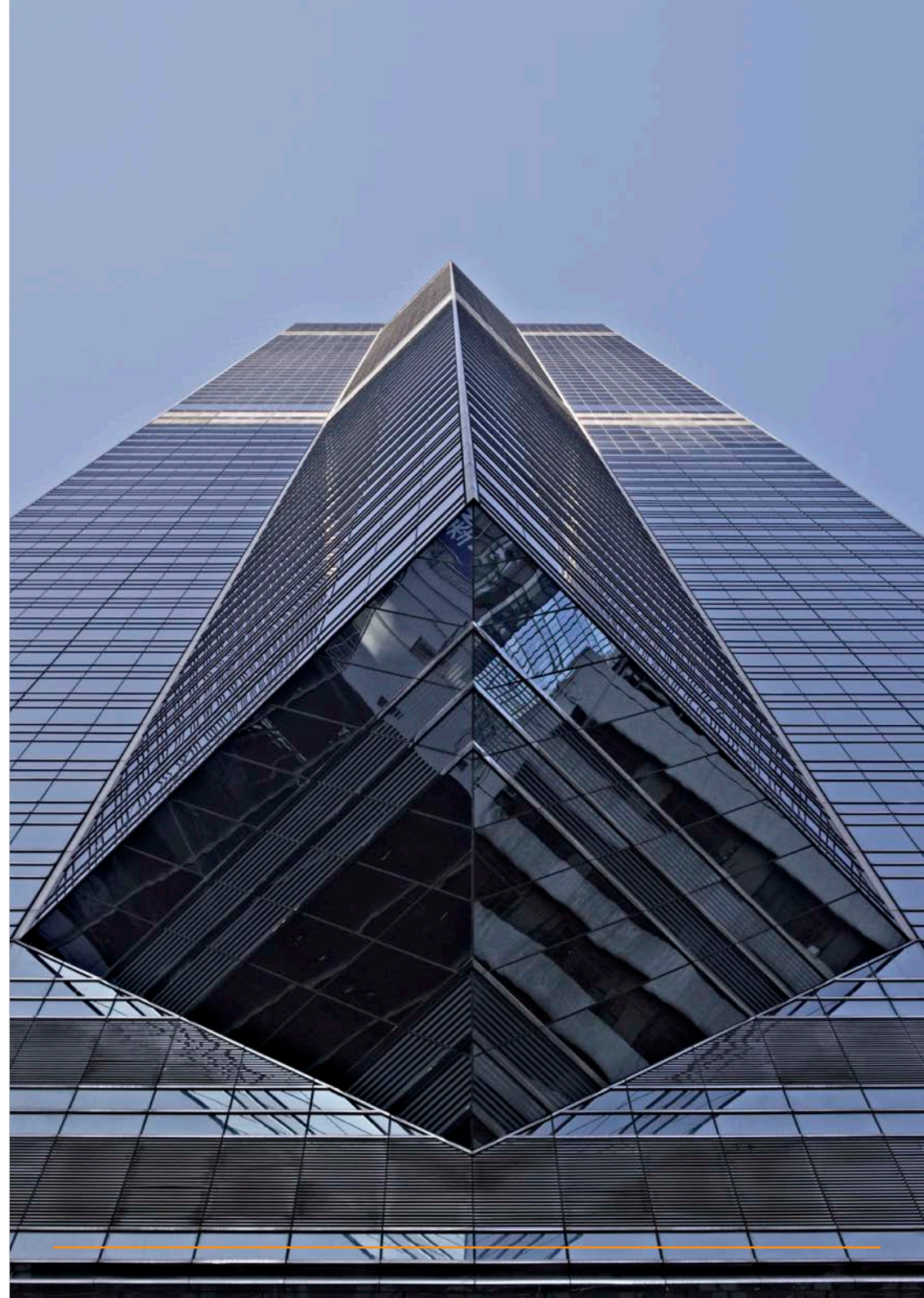
05

Another common mistake when leasing office premises that have a 'landlords' redevelopment clause in the lease, is that the tenant fails to ensure there is a minimum term of occupation.

Often the redevelopment clause will require the tenant to vacate the premises on giving 6 months notice. The tenant should negotiate for a minimum period of occupation e.g. the redevelopment clause cannot be triggered within the first 18 months of the lease, so the tenant will be assured at least 2 years of occupation.

Redevelopment clauses are very common, even in the newer buildings, so tenants often have to 'take a view' on the likelihood of these kind of clauses being executed.

Another common mistake when leasing office premises that have a 'landlords' redevelopment clause in the lease, is that the tenant fails to ensure there is a minimum term of occupation



Options to Renew – have mechanism in place to determine fair market rate

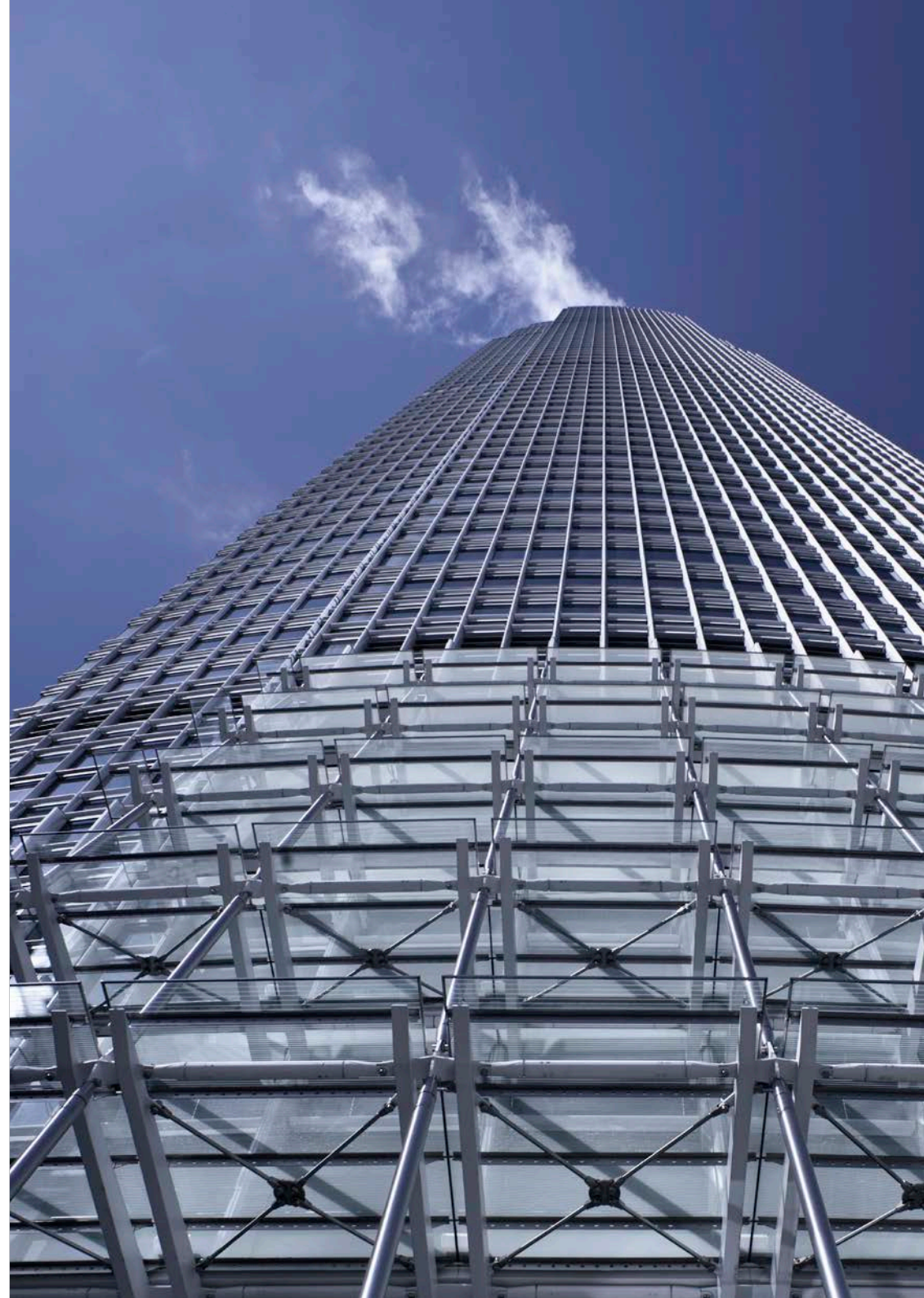
06

Many leases have an option to renew for a further term of two, three or five years but it is important to have a framework in place to determine what a 'fair market rate' at the time of renewal. Landlords sometimes just have a general phrase 'at a rate to be agreed' **which leaves the tenant very vulnerable because it is not implied that the landlord needs to be reasonable.**

Therefore the landlord could be as awkward as he likes if he really wants recover possession of the premise. The renewal rate should be determined by independent valuation and not just the landlords valuer! **There should be a choice of independent valuers that the landlord and tenant can agree upon.**

Alternatively any the dispute can be selected by arbitration but the majority of landlords prefer the former method. The cost of such valuation / arbitration has got to be agreed by the parties.

Landlords sometimes just have a general phrase 'at a rate to be agreed' which leaves the tenant very vulnerable because it is not implied that the landlord needs to be reasonable.



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