

GARDEN CENTRE LEASES

- Leases are becoming increasingly popular
- Easier and faster way to transact sales
- Vendors need assurance of tenants' financial health and business acumen
- More leases expected

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Gilbert Evans is the sole preferred supplier of property advice to the HTA. Members can contact us via gardencentres@hta.co.uk



Leases are an increasingly popular way of selling and acquiring garden centre businesses. A lease can be an easier and faster way to transact a sale. Rarely involving bank borrowing, it enables expansion without a large capital commitment. It allows vendors to retain the freehold interest as an investment and if there is longer-term redevelopment potential it allows owners to sell the business, whilst retaining the redevelopment upside value.

Leases are not without risk. Vendors need assurance of the tenant's financial strength and have confidence the tenant can run and grow the business. The business must be able to support rental levels. Uncertainty around rental levels and rent reviews has been a deterrent but with professional advice this can be managed. Initial rents tend to be between 6% and 10% of turnover but can be influenced by turnover, building condition, repairing liabilities etc.

Rent reviews are traditionally based on open market transaction evidence. Without comprehensive comparable data they can be difficult to predict without taking professional advice. It is possible to reduce the risk by linking rentals to either turnover or the Retail Price Index. Maximum and minimum limits can be agreed in advance, thereby further de-risking the process.

For existing businesses tenants are often prepared to pay a capital sum, reflecting a combination of goodwill, trading potential, fixtures and fittings etc. Rent free periods are rare for existing businesses but are the norm when leasing a new centre.

With banks showing little sign of loosening credit, we believe there will be more leases, particularly for businesses under £2m turnover where owners want to retain the freehold as a long-term investment.