

**Retail Leasehold
Offer**



**Chrisp Street
Regeneration**



telfordhomes

FOREWORD

Chrisp Street is being regenerated. It's a fantastic opportunity for Poplar's district centre to gain the investment it needs. It's a chance to improve the centre but keep what's great. We are working hard to keep the community together in the new Chrisp Street by supporting residents and businesses through this process.

As part of the regeneration Poplar HARCA and Chrisp Street Developments Ltd (CSDL) which is owned by Telford Homes Plc, will need to acquire or relocate various individuals and businesses. Those affected will fall into one of five groups:

- Residential tenants
- Residential leaseholders
- Retail leaseholders
- Lock up units
- Market stalls

This document explains HARCA / CSDL's offer to the owners/occupiers of the business leases. There is a separate document for each group. Copies are available from the estate management office at 19 Market Square and are available on the chrispstreet.org website.



1. INTRODUCTION

HARCA/CSDL is committed to pursuing negotiated agreements with the retail community to deliver the regeneration of Chrisp Street. This document details its approach to reaching settlements based on the retailer's individual circumstances. It also provides worked examples.

HARCA/CSDL assures that it will continue at all times to try to reach negotiated agreements with property owners to acquire their land interest so that this regeneration scheme can be delivered, provided that it is granted planning approval.

As with other local schemes, HARCA/CSDL may also ask Tower Hamlets Council to support this process by use of its statutory powers to make a Compulsory Purchase Order (CPO). If the council agrees to do this the CPO would only be enforced as a last resort. More information would be provided in due course if a CPO is to be made, and it is stressed that we will always seek to reach voluntary settlements with owners.

2. EXISTING LEASEHOLDERS

Overview

There are 68 existing shop units in the district centre. Approximately two thirds of the total number of units will remain or be subject to remodelling and agreed improvements in line with this offer document. The remainder are due for demolition.

Retailers with Security of Tenure

HARCA/CSDL have confirmed that all retailers who had a right to renew their lease will be offered the option to stay within the scheme if they so wish. Retailers who remain in occupation at the date that possession is required by HARCA/CSDL will be compensated in accordance with the statutory CPO compensation code.

Retailers wishing to stay fall into two main categories: those who can remain in their existing location subject to lease variation (taking into account the new scheme arrangements); and those relocating to alternative premises.

Retailers remaining in their existing location will be provided with new shop fronts and unit improvements, such as signage and security features. HARCA/CSDL will meet:

- the reasonable legal costs associated with either the granting of a new lease, an agreement to lease or the amendment to their current lease; and
- the reasonable costs of a surveyor, if required, up to an initial 10 hours, reviewable depending upon the complexity of the matter

For retailers who are required to relocate to another unit within the scheme, HARCA/CSDL will offer the following in addition to the above:

- a unit of the same floor area or slightly smaller than they currently occupy (unless otherwise agreed between the parties);
- shop fit out to the same specification as their existing unit, using modern materials and fittings and to current regulatory requirements; and
- reasonable relocation costs associated with the move in accordance with the compensation code

In the event that a negotiated settlement cannot be reached with trading businesses on reasonable terms, HARCA/CSDL will terminate expired leases or request the Council to implement compulsory purchase powers (where necessary). This will be as a “last resort.”

All new leases granted will be on the standard lease term of 10 years, but may be longer or shorter by agreement between the parties.

Every retailer with an interest will be encouraged to engage a surveyor who is RICS qualified and who is also fully conversant with the CPO compensation code to negotiate a settlement on their behalf.

RETAILERS WITHOUT SECURITY OF TENURE

Retailers who do not currently benefit from the security of tenure provisions of the Landlord and Tenant Act 1954 have two options:

- cease trading. HARCA/CSDL will enter into negotiations with a retailer for a negotiated surrender of its lease based on the existing terms; or
- relocate into the new scheme in line with this offer. HARCA/CSDL will endeavour to offer suitable alternative accommodation to retailers who wish to continue trading



New Lease or variation to existing lease

The initial rent payable for the premises will be:

- the rent under the existing lease, confirming that any rent reviews outstanding on the existing lease prior to 2015 will be settled at nil increase; any rent review due from and including 2015 and up to the date of the implementation of the planning permission will be settled at market rates;
- no rent review that falls after the implementation of the planning permission will be actioned until 12 months after the completion of the phase in which the property is located. Rent reviews will be effective from this date and not backdated to the rent review date under the lease. This will enable trading (and rents) to stabilise prior to the rent being reviewed

Completion of the phase is defined as all of the following being completed:

Phase 1

- Landscaping completed from the north (Cordelia Street) to the south side of Market Square
- Market stalls returned to Market Square from their temporary relocation
- Canopy and utilities in place
- Phase 2 hoarding well dressed
- 85% cladding down at Ground Floor *

Phase 2

- Landscaping completed to the front of the commercial units
- 85% cladding down at Ground Floor *

*Completion of the phase is defined in detail when terms are agreed with the retailers. The desired outcome is that the phase looks complete and does not have any construction work ongoing in the public realm and retail units.

HARCA/CSDL confirms that if a retailer is in rent arrears they would either need to clear any outstanding debt or enter into a payment plan prior to the new lease being granted.

Concessions to Leaseholders

If requested, HARCA/CSDL will give personal concessions to independent retailers from the first rent review of the new lease. This concession will last up to five years and be subject to:

- the retailer providing its management accounts as recorded for the returns as supplied to HMRC; and
- the concession involving the 'stepping up' of any increase over the five year period should the market rent as a percentage of turnover, post regeneration, be more than before the regeneration. This will provide retailers with the opportunity to grow their business in the new and enhanced trading environment in advance of the next rent review

Due to changing servicing arrangements, HARCA/CSDL will offer off-site parking at nil cost to any retailers with existing car parking provision. This will be for an initial 12 month period and will be provided at competitive rates thereafter to meet the costs and maintenance of the facility. This will be managed by a managing agent.

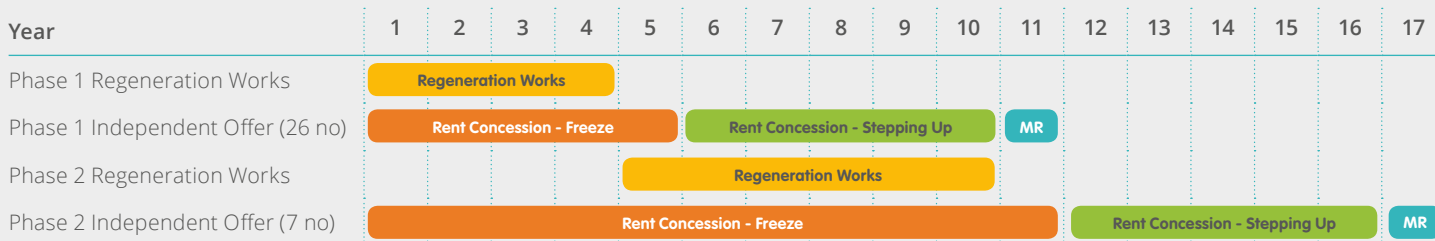
To protect the unique character of Chrisp Street, HARCA/CSDL will covenant that, in the refurbished Festival of Britain, units with A1 use class, and any new lets, will be targeted at local independent businesses. No more than 25 % of the Festival of Britain units with A1 use class will be let to multiple retailers.

Several retailers currently occupy on a short term lease basis, which is subject to a break clause to allow development. These retailers entered into these agreements in the knowledge of the proposed development and were aware that an offer of relocation could not be guaranteed or that the proposed rent support proposals may not be offered to these businesses.

HARCA/CSDL will work with the retailers occupying on such flexible lease arrangements to identify if suitable accommodation is available in the scheme on standard commercial terms.

The following image indicates the effect of the rent concessions.

Description of Rent Concession for Independent retailers



The above means independents in Phase 1 (on the north half of the site) will get at least 5 years of rent concession freeze (meaning no rent increase) plus an additional 5 years of stepping up concession before market rate is

charged. Independents in Phase 2 (on the south half of the site) will get at least 11 years rent concession freeze (meaning no rent increase) plus an additional 5 years of stepping up concession before market rate is charged.

Please note:

1. Rent freeze begins for independent retailers in both Phase 1 and 2 when Phase 1 starts
2. Rent freeze applies a year after respective phase competition
3. Rent concession only applies to independent retailers, not chains
4. 33 independent retailers will be eligible for the rent concession (26 in Phase 1, 7 in Phase 2)
5. To be eligible, independent retailer must provide management accounts to HARCA/CSDL as recorded for the returns supplied to HMRC
7. Rent Concession Stepping Up involves 20% rises each year with Market Rent (MR) determined at end of stepping up period
8. Rents will be reviewed by a valuer on the review date, if agreement cannot be reached on the market rent the parties can agree to appoint an independent expert

WORKED EXAMPLES

Example #1 – Retailer remains in-situ in remodelled unit

Independent retailer has a 10 year lease for an A1 unit. The lease runs from 2009 and expires in 2019. The shop is 100m². The original rent was at a market rent.

HARCA/CSDL has agreed to settle the rent review due in 2014 at a zero increase. Retailer 1 is not being relocated to a new unit and wishes to stay in the scheme.

The retailer would get replacement signage, shop fronts and other internal unit improvements, at no cost to the retailer.

In normal circumstances the rent would increase on lease renewal in 2019 to market rates.

The construction phase is not scheduled to complete until 2021. The rent payable will remain at the pre-construction works level for 12 months following completion of the Phase 1 works (when retailers have the opportunity to benefit from the uplift in footfall and associated sales). Therefore, the rent is not scheduled to increase to market rates until 2022 in this example and this will not be backdated to 2019.

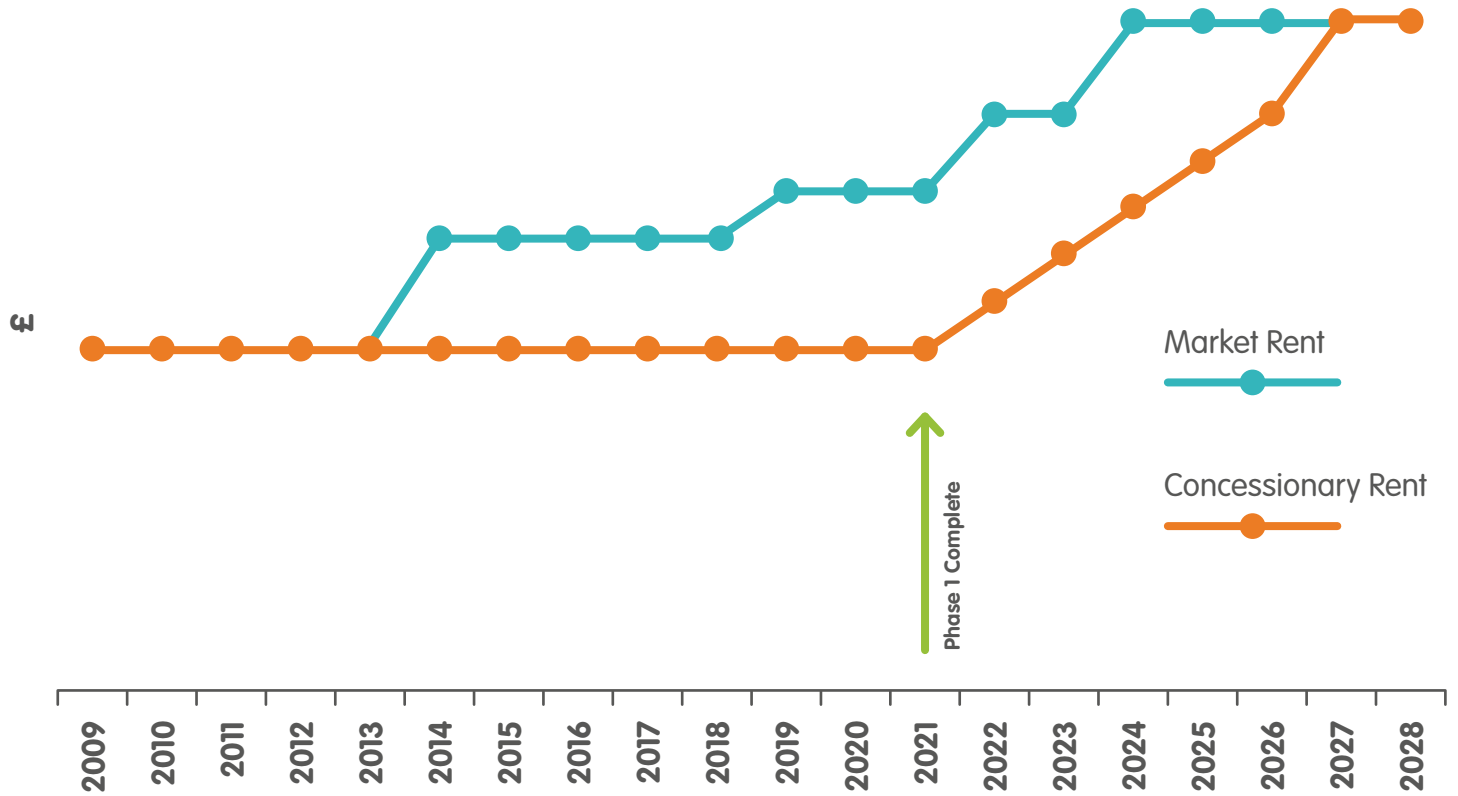
The rent will be assessed at market rent

The retailer then may claim a personal concession. In these circumstances the rent would 'step up' from the current rent payable to the market rent in equal steps over the next five years until 2027, when the personal concession expires and the retailer's rent payable reverts to market rent until lease expiry in 2029.

This has the effect in this case of the retailer having no rent increase from 2009 to 2022 with stepped increases to 2027.

The chart overleaf indicates the difference between the market rent and the concessionary rent charged.

Rent Example 1



Example #2 – Retailer is relocated in the scheme to comparable unit

Independent retailer occupies a unit of 85m². They currently pay a market rent and wish to retain a presence in the scheme. They have a 10 year lease (expiring in 2018) of the existing unit, which is due for demolition.

HARCA/CSDL has offered the retailer a new unit in Phase 1 of the scheme at 90m².

HARCA/CSDL will grant a new 10 year lease to the retailer from 2018 at the same rent (not the market rent) by way of personal concession (there will be no uplift in rent even though the unit is slightly larger as HARCA/CSDL have offered the unit at this size).

The first rent review would be in 2022, 12 months after the completion of the phase. As with Retailer #1, the retailer may be eligible for a personal concession which means that any rent increase may be stepped over a further period of five years.

HARCA/CSDL will provide a new unit including shop fronts and signage and also pay for relocation and shop fit outs as detailed in the document.

Example #3 – Retailer is relocated in a unit with double the floorspace

Independent retailer occupies a unit of 100m², has a 10 year lease that expires in 2018. The existing unit is scheduled for demolition. HARCA/CSDL have offered them a unit of equivalent size in Phase 1 of the scheme, at the same rent payable as their existing unit, regardless of the market rent.

The retailer sees the scheme as an opportunity to grow their business and has requested a unit of 200m². The request is accommodated by HARCA/CSDL.

HARCA/CSDL grants a new 10 year lease on the new unit from 2018. The rent will be the same as before for the first 100m² (by way of personal concession) plus the market rent for the additional 100m².

The next rent review would be at 2022. The retailer may claim a personal concession in line with the policy but if granted would be on pro-rata basis.



Example #4 – Retailer on short term flexible lease who wishes to relocate in the scheme

A retailer took a five year lease in 2015 with no right to renew. The lease has a break clause that allows HARCA/CSDL to terminate upon six months' notice on grounds of development. The retailer pays a market rent.

The premises are required for development in Jan 2019. The retailer has expressed a wish to remain in the scheme.

HARCA/CSDL has identified a unit and is prepared to offer this on market terms.

The retailer will not benefit from any rent protection or be able to apply for a personal concession as they took the current unit in the knowledge of the development being planned. Furthermore, each party would meet its own costs as part of the transaction.

Example #5 – Retailer relocates into an alternative Phase 2 unit

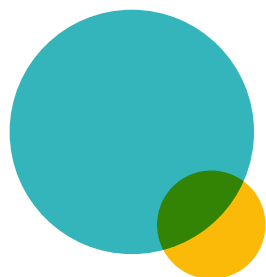
Independent retailer has traded in Chrisp Street for 11 years in a 90m² ground floor unit situated in Phase 2 of the scheme. In 2017, the retailer renewed their lease at market rent.

The existing unit will be demolished as part of the proposals. The retailer wishes to stay very close to their current location and HARCA/CSDL has offered an equivalent ground floor unit in one of the seven Phase 2 units to be retained.

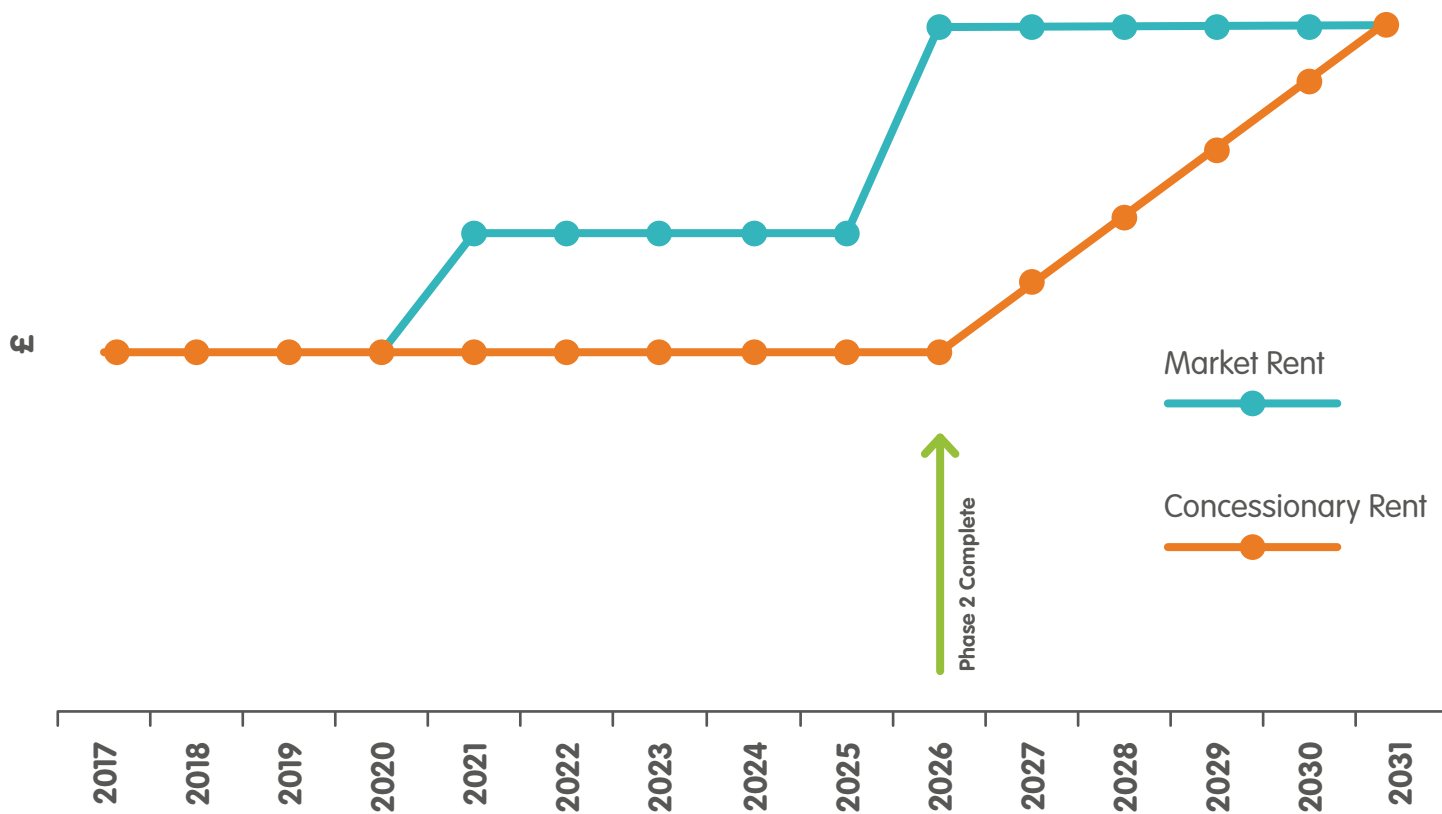
The retailer will continue to trade from their existing unit until approximately 2021, when the demolition will commence and will then relocate to the new unit.

In 2021, the lease of the relocation unit will be granted on a 10 year term and the rent payable will remain at the same level, (as a personal concession based upon the lease granted in 2017) even if the 2021 market rent is higher.

The construction works in Phase 2 are due to complete in 2025. The next rent review for the retailer will be 12 months after this completion in 2026. At this time, the retailer may claim a personal concession which would enable the retailer to 'step up' to market rent over five years to 2031.



Rent Example 5



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