
277 Te Irirangi Drive (near Cnr Ormiston Road), Botany Junction
PO Box 217 006, Botany Junction, Manukau 2164, New Zealand
Ph: (09) 271 5880 Fax: (09) 271 5876 DX EP 83003, Botany Junction

BUYING A BUILDING AS AN INVESTMENT (EXISTING TENANT)

The purchase price is often a reflection of the lease rental.

Therefore the following is important:

1. The calibre of the tenant. If the tenant collapses and the lease folds - you have an empty building.
2. The current term of the lease. Beware the tenant might not exercise any rights of renewal.
3. If the current rental is more than market rental then:
 - (a) The tenant may not renew the lease without prior negotiation as to a rent reduction.
 - (b) The tenant could approach you during the term of the lease for a rent reduction on the basis that it is not making enough money to pay the rent. Although there is no legal obligation to do so you may find that it is preferable to make a commercial decision such as agreeing to a reduction of rent in exchange for a longer term or other conditions.
4. If the current rental is less than the market rental then you may have to consider whether it is commercially viable to increase the rental to market rental at the next rent review or whether to increase the rental slowly at each rent review until market rental is achieved.

To assess what is the appropriate market rental for the building we suggest you engage the services of a registered valuer.

5. Of course there are always exceptions to everything and the above is a generalization and will not fit every case. Be wise before the event. Before you sign seek advice from your registered valuer, your accountant and us.

- See also due diligence clauses -