Guide
Asia Pacific | 2024

# Logistics & industrial

## A comprehensive leasing guide

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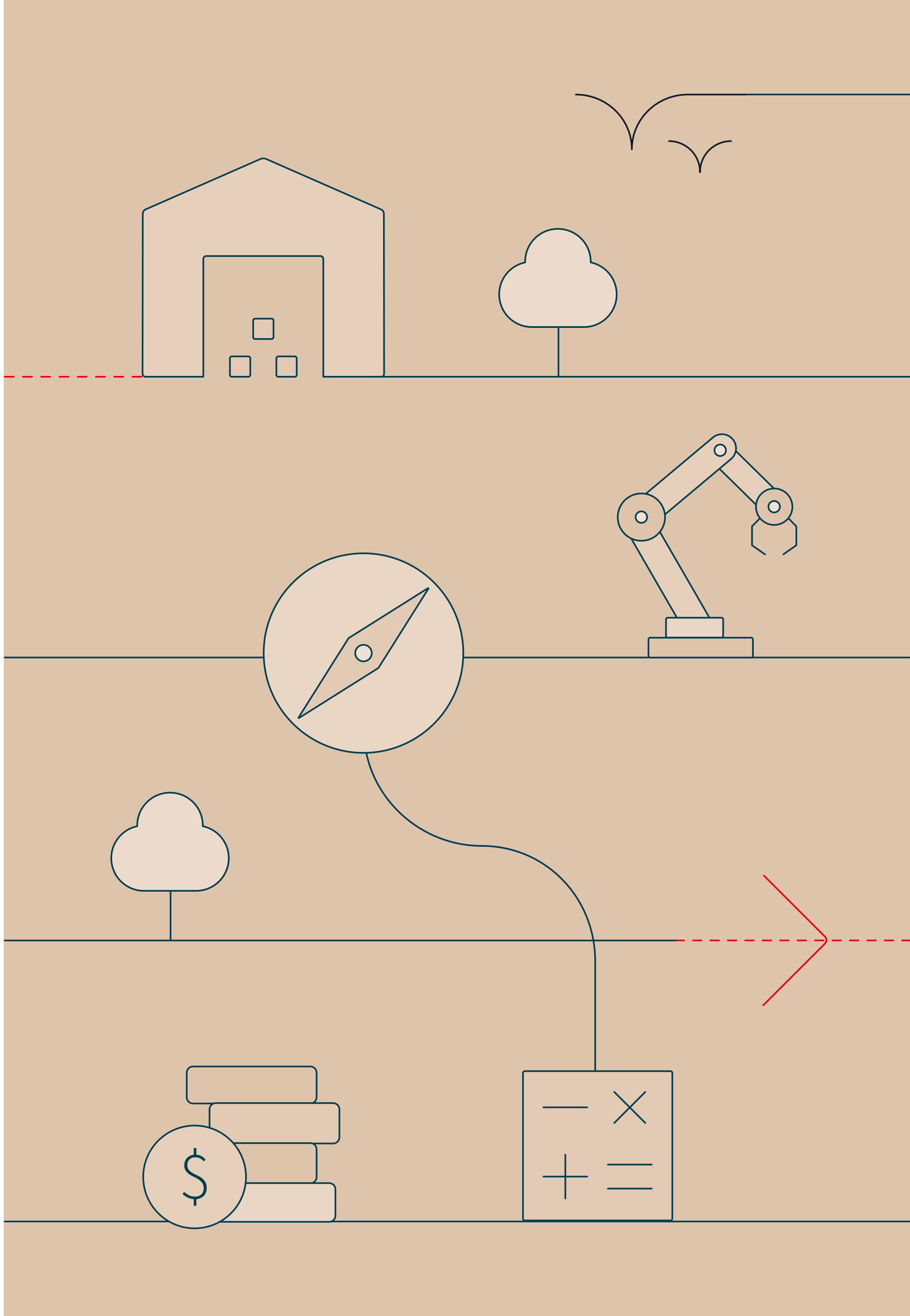

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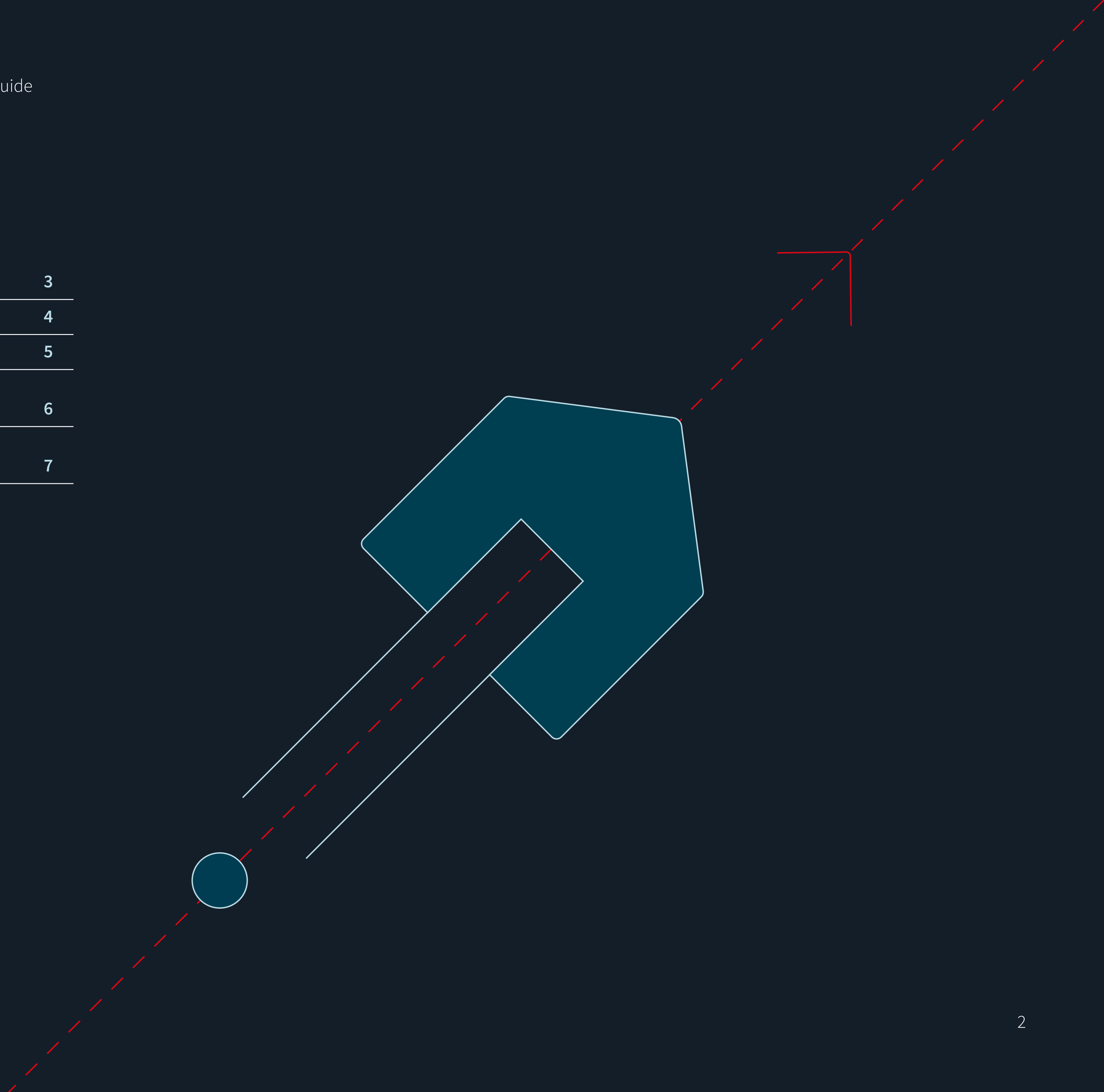


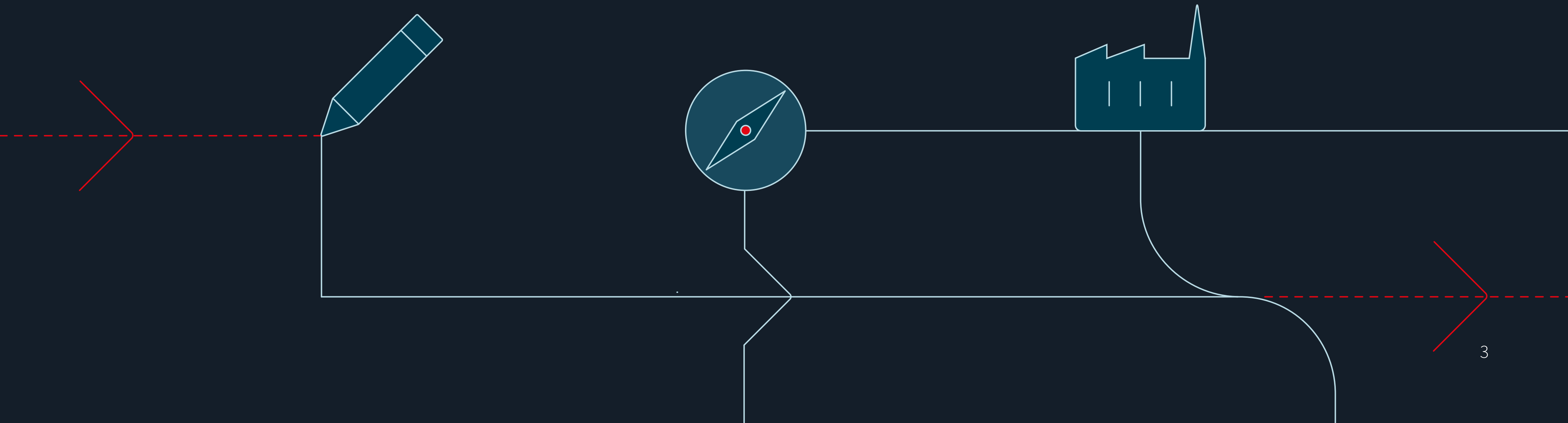
# 1. Leasing a logistics & industrial facility

Successfully navigating the leasing process for your logistics and industrial facility calls for meticulous attention to detail and consideration of various factors.

To start off on the right foot, it is crucial to stay updated on the latest market data, trends, and insights. This knowledge will empower you to make informed, future-proof real estate decisions that unlock the full potential of your logistics and industrial operations.

Key factors to prioritise when selecting a suitable location for your new facility include proximity to major transportation routes and the ability of the facility to effectively optimise space utilisation. In addition, it is important to ensure that the chosen location aligns with the specific operational requirements of your business.

When it comes to negotiations, engaging a real estate advisor allows you to leverage well-established relationships with landlords to discuss favourable lease terms, while avoiding potential pitfalls or hidden expenses in the process.



# 2. Different types of leases explained

When it comes to leasing your new facility, be it a basic warehouse or a specialised industrial facility, there are three lease options to consider.

## Leases of ready-built logistics and industrial facilities

These leases are for facilities that are currently on the market, which are recently developed or are previously occupied by other tenants. Second-hand facilities tend to be more affordable, although the price may vary depending on factors like the building's specifications, location, as well as market supply and competition.

For occupiers seeking a cost-effective, time-efficient option, a ready-built facility is the ideal lease choice. Assuming there is suitable space available, a lease can be negotiated and agreed upon within a few months. Furthermore, occupiers typically only need to commit for a maximum of three years, making it a flexible option.

## Pre-leases for new developments

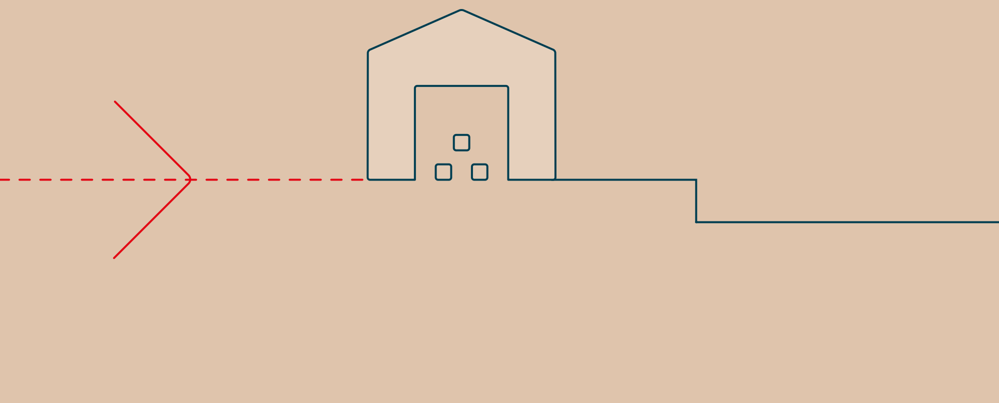
Pre-leases are leasing agreements involving developments that are either still in the planning stage, or are nearing completion, where the developer has built the facility speculatively without any tenants confirmed.

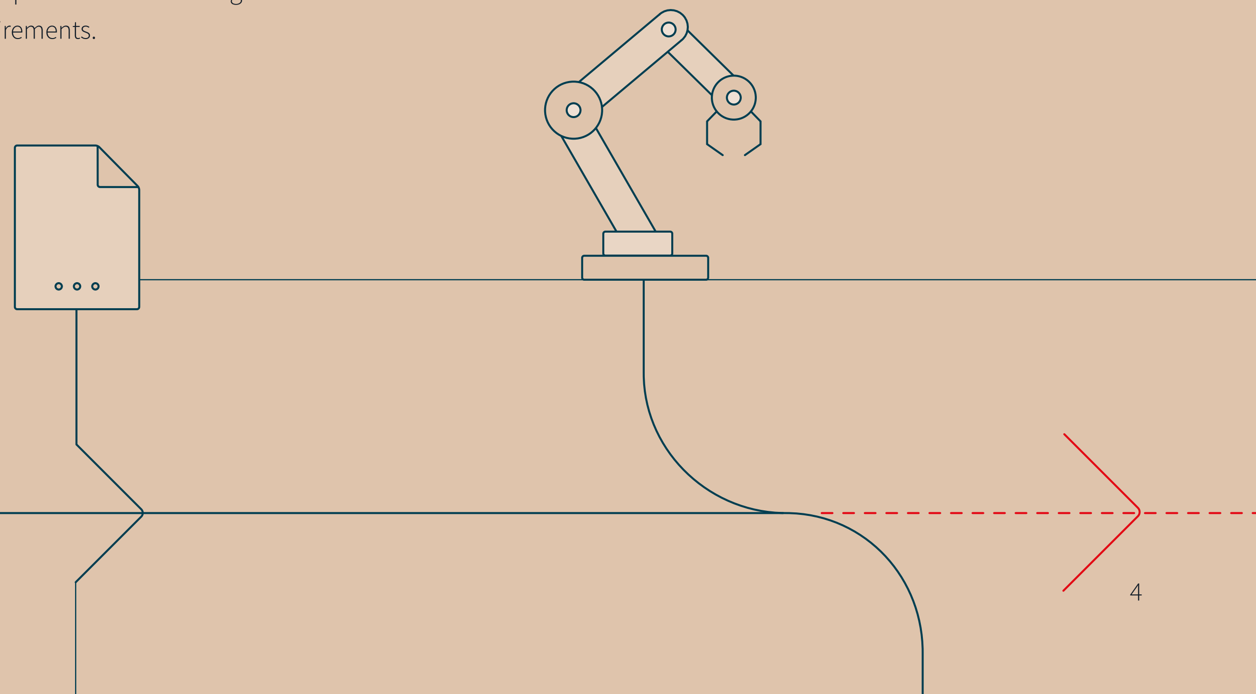
For such facilities, occupiers have the opportunity to secure a pre-lease before completion if they are satisfied with the location. By committing early, occupiers may enjoy additional benefits such as improved incentives including lower rent, longer rent-free periods, or the ability to request specifications that align with their operational requirements.

## Leases for build-to-suit facilities

This option caters to occupiers with precise requirements and flexibility on timelines. These occupiers often require a custom-built facility that perfectly aligns with their specific needs and cannot be easily replicated elsewhere.

However, this customised process comes with a significant investment of time and cost, as the completion timeline for the facility could be years away. Typically, the lease commitment for a build-to-suit facility will be a minimum of 10 to 15 years, and often at a higher rent.





# 3. Six steps to negotiate your next lease

To kick-start your leasing journey, follow these six key steps for a smooth, effective negotiation process:

**1. Capture your detailed requirements**

Start by identifying and documenting your needs and preferences for the leased space. Consider factors like size, layout, amenities, location, and specific technical requirements. This will serve as your guiding document throughout the negotiation process.

**2. Research and provide all potential options currently available in the market and any off-market opportunities**

Work with your real estate advisor to conduct comprehensive market research to get an overview of all potential leasing options available.

**3. Inspect all shortlisted options**

Schedule visits to the shortlisted properties to assess their suitability for your requirements. Take note of unique features, practicalities, or concerns during these inspections.

**4. Analyse options, form tailored strategy, and agree next steps**

Analyse and weigh the shortlisted options based on your requirements, preferences, and needs. Formulate a tailored negotiation strategy, which may involve prioritising certain properties or considering alternative negotiation tactics for each property.

**5. Engage and negotiate with shortlisted landlords**

Initiate negotiations with the landlords of the shortlisted properties to communicate your requirements before settling on the terms and conditions including lease terms, rent, incentives, and other commercial considerations.

**6. Review commercial terms in formal documentation**

Once an agreement is reached, review the final commercial terms in the lease agreement with help from your real estate advisor and legal team. Carefully review all clauses, including rent, lease duration, renewal options, maintenance responsibilities, and any special provisions or conditions.

# 4. When should you start negotiating your next lease?

Now that you're aware of the steps involved, it's necessary to plan ahead and account for the timeline needed in the negotiation process.

This can vary depending on the size and type of space, but it typically takes a few months to secure ready-built space. If you opt for a pre-lease or build-to-suit option, it may take longer.

## Indicative timeline for leasing a 5,000-10,000 sq m logistics and industrial facility

Total estimated time: 12 to 16 weeks

### 1 Requirements
1-2 weeks

- Project appointment
- Discussion on space utilisation/ spot cost-saving opportunities, timeline, and criteria

### 2 Market review
1-2 weeks

- Preliminary option evaluation and shortlisting
- Site inspections
- Review potential options internally
- Work on cost estimates

### 3 Negotiation
2-3 weeks

- Request for proposals sent out
- Negotiation with shortlisted landlords and test-fit
- Choose between renewing/ relocating/downsizing
- Conclude discussions and provide initial deposit

### 4 Legalities
2-3 weeks

- Issue, negotiate offer letter
- Review, agree, sign offer letter
- Agreement issuing, reviewing
- Signing of agreement
- Serve notice to discontinue the lease with current landlord

### 5 Project management
4-6 weeks

- Handover date/fit-out period
- Designer briefing, bidding, selection
- Designer appointment
- Design and approvals
- Fit-out construction/Reinstatement of existing leased premise

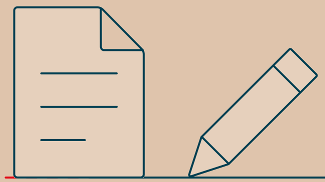
### 6 Transition
1-2 weeks

- Conclude facility relocation or expansion

# 5. Understanding the fine print: Standard terms & conditions

The lease is basically a written agreement outlining the rights and responsibilities of both the tenant and the landlord. To ensure that all parties are well-informed and protected, having a clear understanding of every aspect, down to the fine print, is essential before putting pen to paper.

Below are some of the important terms and conditions (T&Cs) to watch for, and what they entail:



## Lease terms

Lease terms in Asia Pacific are typically for three years, potentially with an option to renew every three years. Longer terms are possible and, in the case of build-to-suit facilities, landlords will typically demand a longer lease commitment.

## Security deposit

Equivalent to three to six months of gross rental and service charges on average. One month is deposited upon the execution of the offer letter and the remaining upon executing the lease and service agreement.

## Rent

Rent is generally paid monthly and is calculated with reference to the leased area as defined by the landlord. The rent is often exclusive of service fees and is typically fixed for the lease term, or until the agreed rent review date.

## Utilities service

All payments and charges for the use of electricity, direct telephone lines, air-conditioning, water supply, communication services and other utilities and facilities provided by the service provider in the agreement.

### Insurance
Procurement of all-risk and third-party insurance with a reputable insurance company (approved by the owner) against all risks of damage, loss, theft, or destruction.

### Sub-letting, alienation and early termination rights
Such lease flexibilities can be included within the lease contract but are dependent on the local market practice and landlord's approval.

### Stamp duty
The tenant is usually responsible for paying the stamp duty for the duration of the lease where applicable. In Thailand, for instance, the stamp duty stands at 0.1% of the rental and service costs.

### Fit-out period and rent-free period
The fit-out period allows the tenant to install necessary equipment for the intended purpose, while the rent-free period is generally offered by the landlord to provide a limited period during which rental is not payable under the lease. The duration of these two periods is subject to negotiation.

### Management fee
The fee is payable monthly in advance and based on the leased area. Management fees generally include building security, lift maintenance and cleaning of common areas.

### Reinstatement provisions
Standard reinstatement terms in an agreement typically specify that the facility must be restored to its original condition upon handover.

## Sale or redevelopment clause

In situations where there are ownership changes or redevelopment plans for the site where the leased facility is located, the landlord may have the right to regain possession of the property. Occupiers should seek legal advice to understand and navigate their rights and obligations in such circumstances.

## Option to renew

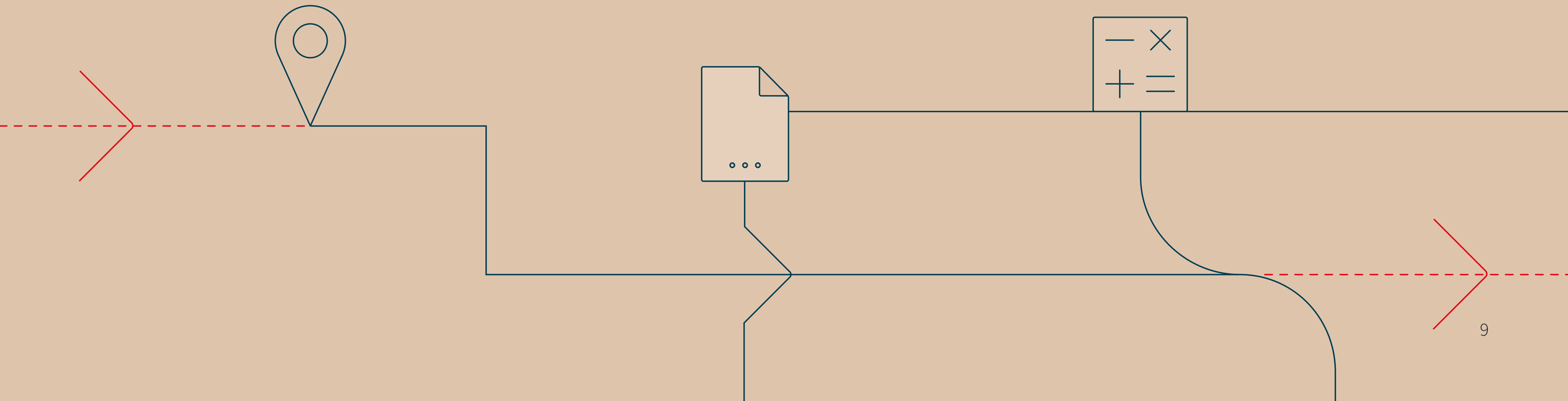
Options to renew may be considered, subject to market conditions and a cap on increase in rent.

## Rent reviews

Long leases (over three years) normally incorporate a rent review prior to the expiry of the third year. Rent is normally reviewed to the current open market level and capped at a pre-agreed cap rate, which will vary from lease to lease.

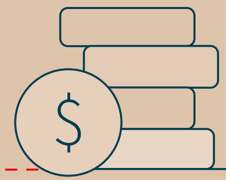
## Fit-out subsidies

Capital contributions for fit-outs are generally not open for negotiation.



# Associated costs

Space occupiers should be aware of and prepared for additional costs. It is important to have all the necessary information beforehand, so here is a list of the associated costs that you should be aware of and budget for in advance.



## Fit-out costs

Possession of the premises is normally provided in pre-decorated (i.e. warm-shell) condition. Cost associated with fitting out the space will be borne by the tenant.

## Legal fees

Both landlord and occupier will bear their own legal costs in the negotiation and execution of the lease and any further documentation required.

## Reinstatement

Tenants must reinstate their premises at their own cost before the expiration of their tenancy.

## Value Added Tax (VAT) and other taxes

For countries where VAT is applicable, the occupier is responsible for the payment of VAT charges. Anything in excess levied by the government shall be borne and paid by the occupier.

## Fit-out insurance

To cover any damage to the building or third party during the fit-out period. It is usually paid for by the contractor.

## Vetting fees

Landlords may charge a fee for the vetting and approval of layout plans, together with a management charge for works in progress.

## Agency fees

- New letting: If an occupier enters into a lease agreement with a new landlord, the landlord typically pays the agent a fee, which is normally a month's rent for a standard lease term.
- Renewal: The occupier typically pays appointed agent an agency fee.

# Still unsure about the leasing process?

**Connect with JLL's logistics & industrial team to embark on your leasing journey today.**

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