



The license for alterations and dilapidations processes are often coordinated by the property manager in collaboration with asset managers and occupiers.

## 1. THE LICENSE FOR ALTERATIONS PROCESS

The license for alterations process involves the definition and review of an occupier's proposals for alteration. Approval instructions should be sought from an asset manager, based on a recommendation of the approach from third party specialists, for example building surveyors.

Throughout the approval process, a property manager should liaise with all parties, and manage the overall timeline through to documenting the Licence to Alter.

### Technical review

Where third party specialists are involved, a building surveyor may be instructed to coordinate the review of technical elements as part of delivering a single technical review. This will lead to a recommendation or approval of the proposal for appending to the Licence to Alter.

As part of the technical review, the building surveyor will engage with the occupier's technical team to seek additional information setting out the proposals in sufficient detail to enable a full assessment.

It is important to understand the wider sustainability impacts on the property as a result of the alterations. For example, an assessment of any changes in the property's energy performance, such as from alteration to heating, ventilations and air-conditioning systems, will be needed to enable an assessment of whether the current Energy Performance Certificate rating will be negatively affected.

Wider environmental, social and governance aspects should also be considered. For example, changes to shared occupancy areas may affect the well-being of other occupiers. Similarly, the installation of electric vehicle charging facilities may affect transport arrangements for property users.

### Re-instatement

As part of the technical review, it may be necessary to agree how a property will be reinstated on termination of the lease.

While the lease and Licence to Alter will generally contain clauses covering this, a more detailed technical understanding may be needed to understand how this will take place in practice, ensuring the existing and proposed drawings clearly show the scope of the works and that sustainability considerations are factored in.

### Approval recommendations and inspections

When the technical review process is complete, the building surveyor will prepare an approval recommendation and collate the agreed information to pass on to solicitors for incorporation within the Licence to Alter. A solicitor will then finalise the documentation and ensure fees are settled.

Subject to the scale of the alterations, interim inspections may be appropriate to monitor the works, ensuring compliance with the approved documentation however there will generally be a single final inspection on completion to ensure the completed works are in line with the approved documents.

A package of information should also be sought to ensure an accurate record of information is held for health & safety reasons along with all relevant commissioning and statutory certification.

## 2. THE DILAPIDATIONS PROCESS

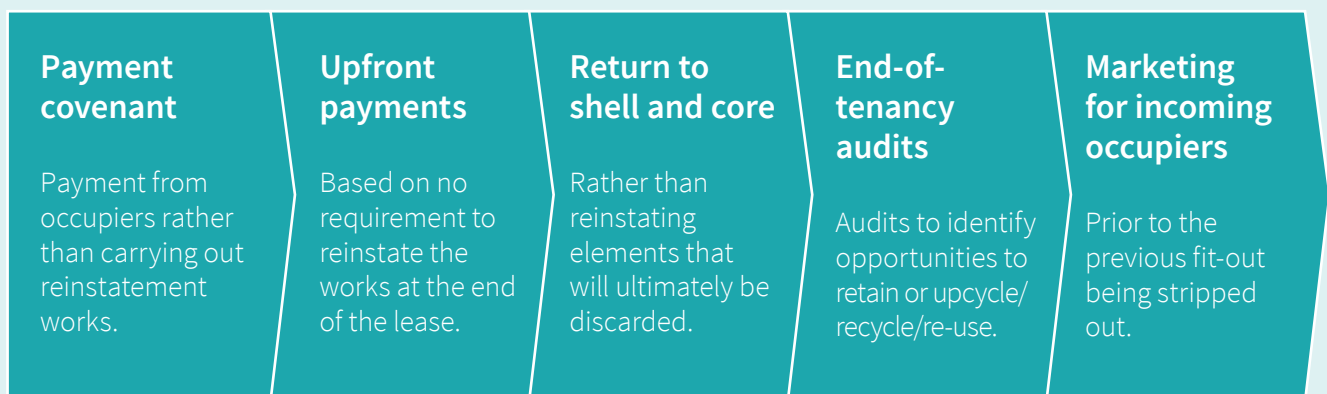
In terms of fit-out works, and any subsequent alterations undertaken during the tenancy, an asset manager will likely require that, at the end of the lease, an occupier restores the property to its original state, or pays the cost of doing so.

The process of removing previous tenant's fit-out and alterations, refurbishing the space for marketing, and the subsequent fit-out by the new incoming tenants can have significant sustainability impacts, in terms of waste, material use, disruption and cost.

Owners and occupiers can proactively take a more responsible approach, and seek opportunities to reduce these negative impacts for both parties by decreasing the need to carry out unnecessary strip-out and refurbishment works.

The way in which reinstatement and dilapidations provisions within lease agreements are drafted could help support such an approach. For example:

### Drafting reinstatement and dilapidations provisions within lease agreements



### Payment covenant

To avoid the disruptive and resource intense process of strip-out and refurbishment, asset managers may wish to consider a covenant providing an option to require a payment from occupiers rather than requiring the occupier to carry out reinstatement works.

### Upfront payments

Occupiers could make an upfront payment as part of the licensing of alterations if this was accompanied by an agreement that there would be no requirement to reinstate the works at the end of the lease. The asset manager could address these costs as part of refurbishment, as long as suitable lease provisions were made in relation to re-instatement resulting from damage.

## Return to shell and core

Most leases require occupiers to return to 'Category A' arrangements. This typically includes, for example, raised floors and suspended ceilings, distribution of mechanical and electrical services, internal surface finishes and blinds.

An alternative could involve options for occupiers to reinstate the space to shell and core. In this case it would be relatively easy to define the obligations and would prevent occupiers reinstating elements that will ultimately be discarded.

## End-of-tenancy audits

End-of-tenancy audits could be undertaken to identify opportunities to retain or upcycle/recycle/re-use fit-out elements off-site.

- The audit cost could be met by the occupier and carried out by a suitably qualified independent surveyor.
- Owners and occupiers could agree on opportunities to be taken, which could result in reduced costs, waste and minimise disruption.
- Backstop provisions in the lease could allow for more typical reinstatement arrangements should agreement not be reached.

## Marketing for incoming occupiers

Asset managers and their letting agents should consider marketing space prior to the previous fit-out being stripped out. Incoming occupiers may prefer reusing or adapting elements of the previous fit-out on grounds of cost reduction, expediency and corporate sustainability commitments.