OCCUPIER INSIGHTS

DILAPIDATIONS

An Introduction for Occupiers in Ireland

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Introduction

Dilapidations can be one of the most significant costs facing occupiers when exiting commercial premises. Whether an occupier is relocating, downsizing or allowing a lease to expire, many only begin to consider their obligations when a landlord serves a dilapidations claim, often in the final months of the lease term.

Dilapidations should be viewed as a lease-end project rather than a lease-end event. Early planning, a clear understanding of lease obligations and an appreciation of the landlord’s intentions can significantly reduce both cost and uncertainty.

What are Dilapidations?

Dilapidations arise from an occupier's obligations under a lease relating to the condition of the property at lease expiry.

Typical obligations include:

- Repairing and maintaining the premises.
- Internal and external decoration.
- Compliance with statutory requirements.
- Removal of tenant alterations where required.
- Reinstatement of the premises to an agreed condition.
- Cleaning and yielding-up obligations at lease expiry.

The lease is always the starting point. The extent of any liability will depend on the specific wording of the repairing, reinstatement and yielding-up provisions contained within the lease documentation.

Many occupiers are surprised to discover that reinstatement obligations can be as significant as repair liabilities. Businesses often invest substantial sums in workplace fit-outs, meeting rooms, partitioning, finishes and technology infrastructure, only to find that some or all of those works may need to be removed at lease expiry.

While reinstatement works are not always carried out in practice, they can form a significant part of a landlord's claim and should be carefully considered when assessing lease exit costs.

Understanding your Legal Obligations

In Ireland, the lease always comes first. Understanding the repairing, reinstatement and yielding-up obligations is often the single biggest factor in managing dilapidations exposure.

A Schedule of Condition (SOC) can be particularly valuable in limiting exposure. This typically comprises a detailed photographic record of the condition of the premises at the commencement of the lease and provides an agreed benchmark against which the property can be assessed at lease expiry.

> "In our experience, a well-prepared SOC is one of the most effective forms of protection available to occupiers. It can help prevent situations where a tenant is expected to return a property in a better condition than it was received."

How to minimise your Dilapidations Exposure?

Dilapidations liabilities rarely arise from a single event. More often, exposure accumulates gradually throughout the lease term. Occupiers can significantly reduce risk by adopting a proactive approach from the outset.
Key considerations;

- Obtain landlord approval for alterations and retain supporting documentation.
- Maintain the premises in accordance with lease obligations.
- Keep detailed records of fit-out works and alterations.
- Understand reinstatement obligations before undertaking major works.
- Retain maintenance records and statutory compliance documentation.
- Review potential exposure well in advance of lease expiry.
- Budget appropriately for potential lease exit costs.

For many occupiers, dilapidations only become a focus in the final months of the lease. By this stage, strategic options may be limited and negotiating leverage reduced.

Early planning creates flexibility. It allows occupiers to evaluate whether works should be undertaken directly, whether certain items can be challenged and whether a negotiated settlement may provide a more commercial outcome.

A Dilapidations claim is NOT an Invoice!

When preparing a Schedule of Dilapidations, a landlord's building surveyor will typically identify:

- Alleged breaches of lease obligations.
- Remedial works considered necessary.
- Estimated costs associated with those works.

Occupiers should remember that a dilapidations schedule represents the landlord's position rather than a final determination of liability.

Each item should be assessed against the lease obligations, the condition of the premises and the extent to which a genuine loss has been suffered.

In many cases there are opportunities to challenge the scope, necessity or cost of works included within a claim. A dilapidations schedule should therefore be viewed as the beginning of a negotiation rather than simply an invoice requiring payment.

Where a claim is received, occupiers should seek professional advice as early as possible. Early engagement often provides the greatest opportunity to influence the process and achieve a more favourable outcome.

Why the Landlords claim may not be their Actual Loss

The value of a dilapidations claim is not always the same as the cost of the works included within it. While a landlord's surveyor may prepare a schedule based on the estimated cost of repairs, reinstatement and decoration, the relevant consideration is the loss actually suffered by the landlord.

This is especially important where a landlord intends to refurbish or reposition the space following lease expiry. Some works claimed may never be carried out because they will be overtaken by the landlord's own plans.

As a result, occupiers should look beyond the headline figure and focus on what is genuinely required, what loss has actually arisen and how this aligns with the landlord's future intentions.

Why future intentions matter?

One of the most important factors in assessing a dilapidations claim is understanding what the landlord intends to do with the space once it has been handed back. Where refurbishment, Cat A upgrades, reconfiguration or redevelopment are planned, there is often little commercial rationale in carrying out works that will immediately be removed, replaced or superseded.

What Is the best approach to Dilapidations?

1. **Understand your lease obligations.**
2. **Assess liability early (at least 12 months out).**
3. **Understand the landlord's plans.**
4. **Consider the most commercial outcome.**
5. **Maintain good records.**

Occupiers who engage early are typically best placed to minimise risk and achieve a more commercial outcome.

How Murphy Mulhall Can Help

Murphy Mulhall works with occupiers to assess lease obligations, review reinstatement requirements, evaluate landlord intentions and develop practical lease exit strategies. We are experts at helping you minimise your financial exposure at lease end.

If your lease expiry or break option falls within the next 12-18 months, now is the time to assess your potential dilapidations exposure. Early review can help identify liabilities, shape your lease exit strategy and avoid unnecessary costs further down the line.

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