IMA Research Insights

Company Voluntary Agreements - July 2018

IMA INDUSTRIES

Real Estate Redefined

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In a difficult retail environment, several major companies have used CVAs recently to release them from lease liabilities and to cut overheads. IMA Research explores what this means for commercial Landlords and the general public.

What are CVAs and how do they work?

Company Voluntary Agreements, or CVAs, are a method of insolvency used by struggling businesses as a way of reducing fixed costs, while allowing directors to keep control of their companies (as opposed to third parties taking control when a business goes into administration); ultimately to try and turn things around and succeed again.

A CVA needs 75% approval from its total creditors, and allows a company to continue trading, as well as negotiate repayment plans via an insolvency practitioner to keep up with debts.

What does this mean for the Business?

- Theoretically, more manageable costs (largely via lower rents for occupied space/stores)
- Poorer credit rating, affecting future borrowing or negotiations over e.g. renewing leases
- No guarantee of avoiding liquidation – Toys R Us are a recent, high-profile example – and a CVA could just be 'putting off the inevitable'

What does this mean for the Landlord of a Business that uses a CVA to change its tenancy?

- Loss of revenue, as the terms of a CVA may include reduced rents or even reduced/early terminations of leases (and hence void periods)
- Often biggest losers amongst creditors, as the total creditors' vote will include those creditors not directly affected by reducing rents.
- Disgruntled tenants of similar (sometimes rival) businesses who may, after a CVA is utilised, be paying more for their rent for similar space than the business who resorted to using a CVA (Next will insert a clause to index their rents in line with any future lowered rents due to a CVA)

I'm not a huge retail landlord or a struggling business. What does this mean for me?

If you are unlucky enough to work for an affected business, potentially losing your job; House of Fraser's store closures mean 6,000 jobs might go.

Closures and job cuts can of course affect the wider community – less money and fewer jobs means more stress on local services and local areas being seen as less attractive areas for future investment.

Landlords generally represent pension funds who are spending the money of the ordinary man on the street; the performance of these funds are affected when rents are suddenly lowered.

IMA are residential specialists, aren't you? How do you fit into this issue?

IMA has long spoken out about against the current CVA process, as misuse dampens the usefulness of CVAs for when businesses – often growing SMEs similar to ourselves – genuinely need them.

We also build and manage commercial units within our mixed use developments, and as our mission statement says, we like to create a positive impression everywhere; we do not want our work to be in vain with empty units depriving communities of necessary and beneficial employment space.

Ishil Mehta, Managing Director, says: *"CVAs seem to be the tool of choice for management teams to improve operating profits as a 'quick fix' by reducing their (often) largest overheads; rents. Reform is urgently needed."*

For further information or advice, including discussing buying or letting through IMA, please call Ishil or a member of our Property Find or Lettings and Property Management teams on 020 3371 1460.