



# EXIT STRATEGY:

## How to Avoid Painful Penalties When Breaking Your Lease

In the dynamic world of business, change is the only constant. Perhaps your company is growing faster than anticipated and has outgrown its space. Maybe you're pivoting to a fully remote model, or facing economic headwinds that necessitate cost-cutting. Whatever the reason, the need to break your commercial lease can feel like a daunting, expensive prospect.

The phrase "lease commitment" can seem set in stone, but it's often more flexible than it appears. A successful exit isn't about magic loopholes; it's about strategy, negotiation, and understanding your options. A knee-jerk reaction can lead to crippling financial penalties and legal disputes. A well-executed plan can save your business tens of thousands of dollars and preserve your relationship with your landlord.

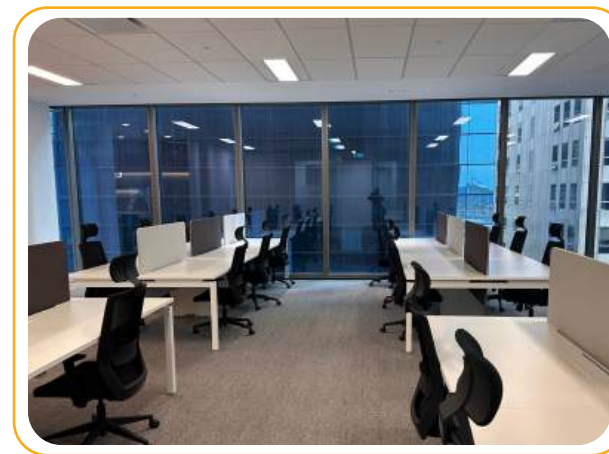
**This guide will walk you through the practical steps, negotiation tactics, and alternative paths to break your lease with your finances—and your sanity—intact.**



## First Step:

# Know Your Contract and Your Rights

Before you do anything else, retrieve your lease agreement. This document is the rulebook for your exit. Pay close attention to these key sections:



- 1. The Break Clause:**

Does your lease have one? A break clause is a pre-agreed provision that allows you to terminate the lease early on a specific date, usually contingent on you being fully up-to-date with rent and having met all other obligations. This is your cleanest way out.

However this clause is rarely provided in Singapore leases.

- 2. The Assignment and Subletting Clause:**

This outlines the rules for transferring your lease to another tenant (assignment) or renting the space to another business while you remain responsible (subletting).

However, very often there is a no subletting clause in most leases.

- 3. The Early Termination Clause:**

Some modern leases explicitly state the penalties for breaking the lease early. This is often a pre-defined formula, such as a lump sum payment equivalent to 3-6 months' rent, or the liability for all rent until a new tenant is found.

Similarly as the Break Clause, this is rarely found in most leases here.

- 4. The Guarantor Clause:**

Understand your personal or corporate liability if you cannot fulfil the lease terms.

**Pro Tip:** Landlords are typically not obligated to "mitigate their damages" unless your lease or local law says so, meaning they could theoretically let the space sit empty while charging you. However, in practice, most landlords would rather find a new paying tenant than engage in a lengthy legal battle.

# Your Three-Pronged Exit Strategy:

## Negotiation, Subletting, and Finding a Replacement

### 1. The Direct Approach: Masterful Negotiation

Your landlord is not your enemy; they are a business partner. Approach them with a solution, not a problem. Open, professional communication is your most powerful tool.



#### **Schedule a Formal Meeting:**

Don't just send an email. Request a meeting to discuss your "tenancy situation."



#### **Come Prepared with a Proposal:**

Arm yourself with market data. What are similar spaces in the area renting for? If the market is hot, your landlord may be able to re-lease the space quickly at a higher rate, making your exit an opportunity for them.



#### **Offer a "Surrender Agreement":**

This is a legally binding document where both parties agree to terminate the lease. In exchange for being released, you could offer:

- **A Cash Settlement:** A lump-sum payment to cover the landlord's costs for re-letting the space (e.g., agent fees, legal fees, and a portion of lost rent). This is often more attractive to a landlord than the uncertainty of chasing you for months.
- **Forfeiting Your Security Deposit:** Propose that your security deposit serves as the full and final settlement for the early termination.
- **Finding a Replacement Tenant:** Proactively present one or two qualified, credit-worthy tenants who are ready to take over the lease. This removes all the work and cost from the landlord.

#### **What to Say:**

"We need to discuss an early termination of our lease due to [brief, professional reason]. We understand this creates an inconvenience, and we'd like to propose a surrender agreement where we forfeit our security deposit and pay one additional month's rent to cover your re-letting costs, allowing for a smooth transition."

## 2. The Flexible Alternative: Subletting or Assignment

If your lease permits it, this can be a way to offload the rental burden without a formal break.



### **Subletting:**

You become the "middleman," renting the space either wholly or partially to a subtenant. You collect their rent and pay the landlord. You remain fully liable if the sub-tenant defaults.



### **Assignment:**

You transfer the entire lease to a new tenant. Once the landlord approves the assignment, you are typically released from future liability (though check your contract, as some may have "authorised guarantee agreements" where you guarantee the new tenant's performance for a period). Very often this process is known as Procurement of a replacement tenant.

### **The Challenge:**

Most leases require landlord consent for subletting or assignment, which cannot be "unreasonably withheld." However, the landlord has the right to reject unsuitable tenants. Your job is to make it easy for them by presenting high-quality, financially stable candidates.

### 3. The Legal Landscape: Understanding "Loopholes"

The term "loophole" is misleading. It's not about trickery; it's about the landlord failing to uphold their contractual and legal obligations. If they are in "breach of covenant," you may have grounds to terminate.

#### Consider if the landlord has failed to:

Provide essential services (e.g., water, electricity, air conditioning).

Maintain the building's common areas or structure, creating an unsafe or unusable environment.

Fulfil specific repair obligations outlined in your lease.

In such cases, you should formally notify the landlord of their breach and give them a reasonable time to rectify it. If they fail to do so, you may have a legal right to terminate the lease. **Always consult with a lawyer specializing in commercial real estate before pursuing this path.**

## The Singapore-Specific Considerations

Navigating a lease exit in Singapore requires awareness of local context:



### Your Action Plan for a Smooth Exit

- **Review Your Lease:** Identify your key clauses and obligations.
- **Analyze the Market:** Is it a landlord's or tenant's market? This strengthens your negotiating position.
- **Consult a Professional:** A brief consultation with a real estate agent (to understand re-letting potential) and a lawyer (to review your contract) is a wise investment.
- **Prepare Your Proposal:** Decide on your preferred outcome (surrender, sublet, assignment) and prepare a fair, data-backed proposal for your landlord.
- **Communicate Professionally:** Approach the negotiation collaboratively, not confrontationally.
- **Get Everything in Writing:** Any agreement, especially a surrender, must be in a legally binding document. Do not rely on a handshake or verbal promise.





## Conclusion

Breaking a lease is rarely simple, but it is manageable with the right strategy. By moving from a position of panic to one of preparation, you can transform a potentially painful penalty into a negotiated business transaction. Your lease isn't necessarily a prison sentence—it's a contract, and contracts can be renegotiated. By understanding your options, communicating effectively, and seeking professional advice, you can execute a successful exit strategy that protects your business and its future.

**Contact us for expert advice!**

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