

The Great Office Occupier / Developer Debate

#2 Lease Flexibility



#2 Lease Flexibility

It's time for landlords and occupiers to share the new challenges, collaborate on jointly beneficial outcomes and engage in the language of the future workplace.

The concept of 'flexibility' from a leasehold perspective can take many forms and within that there are degrees and differing perspectives. The coming years will see more flexibility within leases and/or licences and perhaps new arrangements that have yet to come to light. The future is unclear, but that will, inevitably, create opportunities and encourage change.

Occupiers will increasingly demand greater freedoms in their leases around their exits, expansion and contraction and the ability to temporarily share space with others. We foresee a relaxation of assignment, subletting and sharing rights for tenants, though how these will manifest remain uncertain at this stage. There should be lower thresholds to meet, and greater automation when it comes to such transactions. A lease should stipulate parameters that must be met and, if they are, that transaction should proceed without delay. In the case of sharing with other businesses, this should be viewed with less suspicion and recognised for what it is: a useful means for tenants to increase revenue, work with companies for short periods (such as key client projects) or to divest itself of surplus space during fallow periods. In addition, we would expect to see more instances of occupiers entering into composite deals with flex-operators, as well as their landlords, in order to enable fluid expansion and contraction opportunities as the market, or individual demand, dictates.

Break rights may also become more common, more typically 'rolling', and with fewer hurdles or conditions to meet. Shorter lease terms may go hand in hand with this.

Whether there will be a more revolutionary shift towards what is termed the "European model" - where rents factor in a dilapidations element and are generally 'all inclusive' - remains to be seen. The advantages for occupiers are obvious: upfront certainty and greater freedoms around exiting the space (think of them more akin to a licence to occupy in England and Wales), but some institutional landlords and investors may be reluctant to agree to this. Commercial property

35% of corporate occupiers cite the inability of landlords to offer flexibility as their top frustration as a customer in global real estate markets

Source: Knight Frank '(Y)OUR SPACE survey'



has been a core investment sector in this country for many years, which such a move could destabilise, though in recent years serviced office providers and the flex market has expanded hugely, so we know that the market is receptive to change.

Another lease aspect ripe for revision are those provisions relating to alterations and repair. Occupiers want more freedom to adapt designs and space throughout the lifespan of a lease without needing landlord's consent. The dilapidations provisions of a lease can ensure a landlord's asset is protected, but beyond that, an occupier would have carte blanche (or at least a watered down version of it) to alter its premises from time to time to better suit its requirements. In turn, a landlord has its part to play. It should not just offer lease flexibility, but also offer flexibility of design: space with more inherent flexibility, space that can adapt and flex to match an occupier's needs at any given point. Perhaps risers can be placed more strategically to allow for quicker - and less painful - scaling up or down, or space and services can be better compartmentalised such that a

tenant need not use 100% of them when occupancy rates are down. No one really knows what the future will bring and so this flexibility safeguards against any developments further down the line.

A more leftfield approach concerns sharing amenities between occupiers. We are all part of a global petri dish and need to become more adaptable. If amenities can be managed between occupiers on fixed, equitable or flexible bases, this would manage costs by reducing overheads and mean that such offerings are used to a higher capacity and reduce waste through duplication.

All this flexibility must and will come at a premium however – there are suggestions of an initial rise, before a levelling off as the market adjusts to a new normal. The sector has adapted before, and will certainly do so again. Right now, however, factors unforeseen and beyond our control gives us a huge opportunity to really address corporate occupation and bring it into the 21st century.

Things for occupiers to think about:

- Speak to your landlord at the earliest possible juncture about what flexibility you will need in your lease.
- Plan ahead and build in contingencies – we all hope things will turn out as planned but being agile and having back-ups in place will protect you if things change.
- Consider ways to keep costs down or have the means to reduce overheads as conditions dictate.
- Think about your occupancy as a partnership with a group of others: landlords, occupiers, licensees and group companies and local businesses.
- REMEMBER: a landlord is going to be more amenable before you sign on the dotted line.

Things for developers and landlords to think about:

- Better, more adaptable space will attract a better class of tenant and engender loyalty.
- Being flexible and amenable to change will, initially, help you to stand out from the crowd, but in the long term, stop you from falling behind. Change is going to happen.
- Leases historically tend to favour a landlord and so are inherently cautious – where risks remain remote, greater freedoms should be offered.
- Sharing of occupation is not something to be suspicious of – so long as your position is protected, you should allow it.

