

Offices: recession and tenants' priorities

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“Standard contracts count on sublease, even though this option was used only very little in the Czech Republic in the past,” says Radka Novak, of Cushman & Wakefield, adding that for example in the United Kingdom this is an ordinary concept; yet to some extent this is caused by the fact that lease contracts in the office segment are often concluded for 10 to 20 years. In contrast, ordinary contracts in the Czech Republic are concluded for five years. However, they are often extended and sublease is one of the ways to cope with lower demands on the area, while avoiding relocation. “Any relocation and subsequent arrangement of new premises is very costly,” says Novak. According to her, however, sublease in the Czech Republic runs against the so-called “prestige” factor - in particular larger companies prefer direct lease.

However, sublease is only one of the tools to deal with the recession. In the context of the European continent, there are not big differences between such instruments, as hinted by the mentioned survey, even though there are certain variations between the east and the west. And they may be even greater than the survey shows - out of 750 respondents comprising landlords and tenants, 50% are seated in the west of Europe, and only 13% come from Central and Eastern Europe (including Russia).

Tenants versus landlords

For less - that will be the priority requirement of tenants in the immediate future. According to the survey, over 40% of them will request a rent reduction. But that is exactly what landlords do not want, not surprisingly. They especially want to meet the clients' requirements through miscellaneous offers - including the so-called lease holiday. “It is usually provided for one month per year of lease,” says Novak.

In the near future, tenants will obviously rent smaller areas, as indicated by a third of them in the survey; the reduction of the (paid) areas in use will be accomplished through the above-mentioned sublease option. The survey also shows that the tenants consider 500 to 1,000 square metres as the ideal floor area of one storey (the lease of the whole storey is another prestige factor), while the landlords prefer much larger dimensions for economic reasons - almost 40% of them consider 2,500 and more square metres as optimum. Obviously, this factor will play an important role in the choice at these times of lower demand.

Another possibility to cut office costs for European companies is the so-called consolidation, i.e. concentration of all parts of the company under a single roof, in real-estate terminology. The response of the companies to other questions in the survey hints that this concentration will usually go through while maintaining the quality of the location (i.e. the level of the rents paid). Only few companies consider the possibility to save money by moving to a “cheaper” place within the same city, country or even internationally. “Experience has shown that the relocation of some premises or types of services into cheaper locations, such as India or Turkey, runs against huge cultural and other differences,” says Novak. And the relatively high costs caused by every relocation are an important part of the companies' calculations.

Tenant's measures

However, the need to reduce costs will especially have an inward effect on the tenants of administration buildings, in the field of operations and use of the current rented areas. Almost two-thirds of all tenants indicated their effort to increase the efficiency of their use, especially through measures such as flexible working hours, work from home and the related sharing of a single workplace by several employees. In consequence, the interest of tenants in open space offices is slightly higher - 45% of the tenants use them

in combination with closed office units, which is 4% more than a year ago.

Other measures, such as reduction in area per employee, have the same motivation. According to the survey, this is a pan-European trend. While in 2007, the average office area per person was 12.8 square metres in Europe, at the end of last year it went down to 12.4 square metres. In this respect, Western Europe is still the most generous (excl. United Kingdom, Ireland and the southern part of the continent), since one employee has 13.7 square metres available (incl. the translated area for sanitary and technical facilities). In the east, the figure stands only at 10.9 square metres. The development in the south of Europe (Italy, Portugal, Spain) is remarkable in this regard - in spite of the recession, the office area in relative terms is getting larger, growing from 12.4 to 12.9 square metres per employee in the course of the year.

What to offer

When selecting the needed administration capacity, the tenants still emphasize the quality of the location most of all. However, the interest in the central parts of capital and other major cities declined during the year. In 2007, about a half of all tenants preferred such locations, while at present the figure is slightly over 40%; yet the centre remains the most popular address for tenants. However, the tenants must be provided good traffic accessibility, i.e. the possibility to use public and passenger transport, which corresponds with parking requirements (this plays a major role in Eastern Europe and is almost irrelevant in the United Kingdom). The tenants' requirements on a good network of shops and services are also rather strong.

The list of factors of the leased building itself will contain, in the first place, safety, followed by an ever-growing interest in continuous power supply. This is due to the total computerization of office work. "In the Czech Republic, the recent floods have shown how important data back-up is. Modern administrative buildings are usually equipped with redundant power generating units, but these only provide for the building's main functions and do not protect the computer network. A growing number of companies therefore acquire their own back-up sources of power," Novak, of Cushman & Wakefield, explains.

The interest in "green" buildings remains rather stable, which corresponds with the requirements on social and environmental responsibility of the corporate sphere. However, these may be mere declarations, in particular in the less developed European countries - actual interest in environmentally sustainable buildings cannot be surveyed because the market in the Czech Republic, and in the rest of the post-Communist Europe, does not offer them. The survey also shows that most of the respondents are willing to pay only 1 to 5% more than the common rent for environmental quality.

The market tomorrow

"This is a very challenging period of time for tenants and landlords. However, the lack of standard A premises in many capital cities and the limited construction of new buildings should secure a very good position to the office market," says Eric Peeters, head of Office Rentals in Cushman & Wakefield. By "good position" he obviously means higher rents, which is not good news for the tenants, especially today. If the tenants therefore will not try to satisfy their needs for office areas in an effort to save costs, it could turn against them and their attempts to cut operating costs in the near future. However, the recession seems not to have undermined the tenants' rationality. For example the demand in Prague is lower than in the past, yet it is still very good. "We already have binding inquiries for 14,000 square metres in Amazon Court," Novak comments the current market situation in connection with a new addition to Prague offices - the third building of the River City Prague complex, which will offer 41,000 square metres of offices with a higher environmental standard in the foreseeable future.

