LESSONS FROM APAC

The outbreak of the COVID-19 virus has led to many deals being put on hold across EMEA markets as occupiers adopt a wait and see approach. While the timing of a recovery in Europe remains uncertain, the positive news from our APAC teams – which are some 6-8 weeks ahead of the European curve – is that they are seeing light at the end of the tunnel. Mobility restrictions remain in place across markets, but staff are gradually returning to work as the region gradually moves out of the lockdown phase. There is now cautious optimism in APAC for a V-shaped economic recovery in H2 2020.

Occupier sentiment has been strong from a domestic perspective, but international sentiment is hesitant until the situation in North America and Europe becomes clearer. The biggest question mark for the APAC markets is how quickly Europe and North America will recover, allowing international multi-national corporations (MNCs) to release the handbrake on their business operations into co-located project teams.

HOW HAVE OCCUPIERS BEGUN SAFEGUARDING THEIR EMPLOYEES?

For many traditional office occupiers, the adoption of remote-working and split-team strategies have been the most common strategy implemented. However, the outbreak of the virus has highlighted some critical gaps within both the IT and network infrastructure for some companies. Larger businesses are more accustomed to tactile, face-to-face interaction with clients and staff have struggled to adopt these new arrangements as effectively. Yet the availability of 21st century technology including Skype, WhatsApp and Microsoft Teams is providing clients and advisors with the platform to function remotely. Flexible working enquiries have been on the increase for some occupiers looking to split business operations into co-located project teams.

WHAT IS THE LANDLORD POSITION?

Landlords, for the most part, have had to accept both the extremity of the current climate and rent deferral or rent-free periods in order to preserve occupier relationships. Landlords negotiating new leasing deals have begun to offer more flexible leasing models, allowing for shorter-term commitments in order to secure occupancy in their schemes. Institutional landlords - including REITs, insurance, pension and sovereign wealth funds - are particularly keen on keeping face rents to preserve values, given the extreme volatility in financial markets. We expect to see some more innovative rental and leasing incentives as the situation unfolds.

Landlords can also take measures to safeguard their own margins. In markets where firms are advised by the government to work from home or remotely, landlords can reduce their business rates for empty buildings, or floors within buildings, providing much welcome cashflow support and easing the pressure on occupiers.

HOW IS OCCUPIER ACTIVITY CHANGING ACROSS EMEA?

More and more occupiers have begun negotiating rental incentives, rent-free periods and earlier contractual breaks. For most advisors, the key objective is to maintain open dialogue with clients on assignments, building the relationship with support. This is especially for the most affected sectors – airlines, tour operators, hotels, events companies, leisure/gym/cinema/casino operators - where the business cashflow position is clearly very difficult. How to defer rental payments, and how to structure this depending upon the contract is critical to understand. It is better to have this conversation with stakeholders, not their lawyers. Some renegotiations that can be handled by Skype are ongoing, but almost all new projects are being pushed into a ‘wait-and-see’ holding pattern.

On a more positive note, some companies continue with their leasing activity, including government bodies, NGOs, shared service centres and life science companies. For the companies that are still actively signing, they are not taking long-term obligations - three years seems to be the lease length being adopted until economic results are clearer. Also, it is worth remembering that good assets and leases are worth the effort to employ. It is better to have this conversation with stakeholders, not their lawyers. Some renegotiations that can be handled by Skype are ongoing, but almost all new projects are being pushed into a ‘wait-and-see’ holding pattern.

Looking forward, the transition from desk-based working to remote-working has instigated many businesses to re-evaluate their mid-to-long term business and operating strategies. If businesses can perform just as well remotely, the volume and type of active space required will change and so too will business overheads and margins. The adoption of flexible space and leases are likely to become more embedded into occupational strategies. Renegotiations and disposals are very likely to increase in future.
Milan
Many businesses have moved towards remote-working, but this is posing problems for building inspections, bids and project management. For the time being, most stakeholders have put decision-making on hold and are adopting a ‘wait and see’ approach. For bids and projects which were near to competition, these have been slowed or cancelled. It is likely any deals expected to complete in 2020 will now be put on hold until 2021 or cancelled. So far, landlords haven’t been 100% cooperative with tenants. One month rent reductions have been the only lease incentives offered by landlords so far – as much as 60% reductions in some cases.

Frankfurt
Most businesses, where possible, are working from home. Largely, this has been an easy transition as the majority are technically well-equipped to accommodate this and adopt a business as usual model. Now and for the foreseeable future, we are seeing tenant representation mandates focussed first on the welfare of employees with many deals being delayed or postponed. We are expecting a significant number of 2020 projects will be put on hold.

Madrid
Landlords have acted quickly to safeguard their portfolios. Many are already in negotiations with tenants to offer lease incentives such as rent-free periods or earlier breaks. At the forefront of this are the most sophisticated landlords; the Pension, Insurance, SWFs funds and REITs who have a responsibility to deliver returns and protect their portfolio values, keeping headline rents afloat.

Warsaw
Some projects have been put on hold for at least 3-4 weeks, but other businesses are carrying on as normal seeing these troubling times as an opportunity. Tenants are optimising and pushing forward with only short-term obligations, ranging from 3-5 years. Some clients have cut 25% off their active operating space by adopting the flex-working model. From a developer’s perspective, the outbreak of the virus will significantly slow or stop construction developments as the Polish Government intermittently closes construction sites.

Paris
Most people are now working from home where possible. A business as usual model is trying to be maintained between clients as regular communication regarding assignments plays out. The use of technology has made this possible and enables clients and representatives to keep moving business forward in the best way possible. However, some projects have been put on hold as a ‘wait and see’ approach is adopted. That said, there are still opportunities, mainly regarding leasing work including renewals, rental incentives and disposals.

Copenhagen
Denmark is under complete lockdown with social distancing implemented. This has meant inspections are not possible and new office acquisition projects are on hold. However, preparations are being made to ensure projects can be restarted very quickly when the virus eventually subsides. Occupiers are looking for support to their current positions, to reduce exposure to rental payments and what strategies can be adopted to safeguard them.

Amsterdam
The Dutch are still recovering from the initial phase of the outbreak and many businesses are making plans for business continuity. Projects which were in the pipeline have now been put on hold and a ‘wait and see’ approach has been implemented. Most businesses, where possible, have adopted remote-working policies in order to keep running but this is a period of adjustment for all. It has meant the restructuring of many businesses from top to bottom.

Moscow
Moscow or Russia is about 2-3 weeks behind the rest of Europe and oil prices and the €/US$ exchange has been more of a feature than the impact of the virus, given the reliance of many Russian companies on hydrocarbon revenues. Despite this, a massive slowdown is yet to appear with activity at present – just lower than usual. Businesses are adopting optimization strategies in order to transition workers into remote-working and this is highlighting the benefits of this model. It has highlighted that many businesses do not require the space they have used in order to remain productive and efficient, which will change traditional occupier requirements going forward.

Dubai
As of March 18, Dubai had only started implementing the remote-working model, with about 50% of Dubai now exercising this. For the first time ever, the Government has allowed the use of WhatsApp as a means of communication, highlighting the virus’ impact on law and jurisdiction. Many events have been cancelled and travel restrictions are also in place, meaning inspections in the UAE are now not possible. This has impacted both business and investor sentiment. From the client’s perspective, most occupiers surround their exposure to commercial lease obligations and how they can safeguard against defaults on payment. Most strategies being implemented are lease incentive negotiations, but so far, landlords have been slow to react and accept these; as this problem worsens, we expect this to change in the coming weeks.

Tel Aviv
Israel is in lockdown, with everyone apart from essential workers working from home. Unemployment is growing at an alarming rate due to the spread of the start-up scene, with many employees being sent home or given unpaid leave. Overall, business activity is diminishing, or being put on hold. With cashflow concerns at the front of our clients’ minds, most questions from clients surround their exposure to commercial lease obligations and how they can safeguard against defaults on payment. Most strategies being implemented are lease incentive negotiations, but so far, landlords have been slow to react and accept these; as this problem worsens, we expect this to change in the coming weeks.

Johannesburg
South Africa is about 2-3 weeks behind the curve and landlords and banks are expecting large surges in defaults. Most businesses, where possible, are working from home. Unlike other countries, restaurants and shopping centres remain open but this is likely to change soon. For businesses, face-to-face meetings have been put on hold, and moved towards virtual meetings using Skype, Microsoft Teams and Slack. Occupiers are most concerned with the welfare of their employees and business, so any future deals/expansions and projects have all been put on hold. The Government’s war chest is not expected to be able to cope with the bailout which is likely to be required.