



CREDIBLE THINKING

IS CAT A+ FIT OUT THE FUTURE POST-COVID?



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Staying Safe at Home. Staying Open for Business.

What does the future hold for office demand? Will occupiers need less space, as more staff work from home, or will they need more space post social distancing, to allow more space between staff on an ongoing basis? The only thing we do know, is that we don't know what the lasting impact of Covid is going to look like. What's better known, or perhaps accepted, is that in the short term, there's going to be pressure on capital. Reduced income set against only marginally reduced costs is never going to produce a particularly comfortable outcome.

Office relocations are going to come under intense scrutiny moving forwards and inevitably the number of new leases being signed is likely to decrease as occupiers opt for the 'safer' option of a regear.

So how can we unlock deals? To do that, we have to think of the decision-making team who will be trying to make the case internally, can we help them?

We've already seen clients have success fitting space out to Cat A+ ahead of finding an occupier and post-Covid this could become increasingly attractive to occupiers, allowing them to keep vital capital in the bank, but also allowing key staff to maintain their focus on the business, at a critical time.

Customer service is something that seems to have declined in general as we've moved towards on-demand products and increased consumerism. When we get good customer service now, we're likely to remember it, so why not bring some to our industry? Make it easy for the tenant?

The pricing for Cat A+ fit-out, in our experience, can range from £40 per sq ft, with the typical cost coming in round £65 per sq ft. It's not an insignificant sum for a Landlord, but when considered in light of ongoing void costs it deserves further consideration. Furniture is capable of lasting 10 years, so even with a break in a lease at year 5, a redecoration (perhaps) and some tidying up of the space and it could be ready to go again. What if there was a wear and tear clause attached to the break notice or lease expiry to allow for the recovery of even that minimal cost? That £65 per sq ft, spread over 10 years starts to look like good value.

All of a sudden, it becomes incredibly simple for an occupier to calculate their

property costs for the life of the lease. No expensive capital project up front and no scary unknown at the end of the lease, making it a much easier sell internally, let alone, the more simplistic process.

We're seeing and hearing of various approaches being taken in respect of this. Some Landlords are rentalising the fit out, others are not. Some offer the fit out in lieu of incentives, others still provide a closer to market incentive. There is no one size fits all. There is no 'normal'.

It's likely that it won't result in a premium on the rent, but it might prevent the rent being negotiated down far as it might otherwise be. What providing a Cat A+ fit out will do is reduce void periods and likely incentive periods too. To date our experience has been on smaller suites of sub 10,000 sq ft, but what if someone started offering this to larger tenants? How far up the food chain has the capital pressure spread? I think many of us have been surprised at just how quickly and how deeply some occupiers sought to reduce staff costs if that's any indication.

Now how about this as a take-away? What if you could de-risk some of the cost of the fit out with income from almost day one? How many of your existing tenants might be looking for some short term additional space as staff socially distance? What if you could provide it for them in their existing building? Even for a short term basis, it could work to reduce void costs and help tenants.