

## Office subletting an emerging property trend

While flexible lease agreements and the restructuring of rentals are on the cards for many, given the current economic climate, little thought has been given to the option of subletting, says Justin Thom, associate director at Galetti Corporate Real Estate.



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He notes that various legalities must be considered, but if done in conjunction with the landlord, there is nothing to stop tenants from heading down this path. “Offices are currently sitting at around 50% capacity with many working from home; this is set to continue for the foreseeable future as we continue to practice social distancing. Furthermore, many companies have had to downsize.”

Both landlords and tenants can look to subletting to help fill vacant space. “It’s no secret that when you drive around now, you will see more ‘To Let’ boards than ever before. The pressure on both landlords and tenants is immense and finding alternate avenues to manage space is crucial.”

In a few instances, Thom says that they have seen e-commerce and FMCG occupiers taking up sub-lease options when the current tenant has no need for the space. “Generally, the occupier can get the space for less than taking up new space and are not bound by the long-term obligations thus giving them the opportunity to correctly plan for the coming months/years ahead.”

Based on in-house research, he predicts that the commercial real estate sector will take three to five years of take-up to return to levels seen in early 2019.



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Once behind the curve, South Africa is now taking note of international trends and is set to follow in the footsteps of commercial hubs around the globe.

In Boston, USA for instance, sub-leased office space has hit a 10-year high. “In the past, finding office space in Boston was a struggle. Today, however, companies like TripAdvisor have had to scale back their footprint significantly and it is anticipated that subletting will continue to ramp up over the next few quarters.”

San Francisco’s inventory reached a new high with 41% of the city’s office space now standing empty. “This research continues across the continent and it’s expected to be much the same on local shores.”

With the world’s 10th largest GDP, Canada has also felt the pinch. Vancouver’s prime commercial real estate hub has now recorded their lowest occupancy rates saying that they’re getting close to doubling their lowest 10-year average.



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## Factors to keep in mind

“If the building is not yours, it’s vital that you disclose your intent to sublet to your landlord. There is a general clause that stipulates that you cannot profit from subletting, but in the current climate, this will most likely not be the case,” says Thom.

He says that the following should be considered:

- **Lease expiry date:** “Unless the landlord agrees to a longer-term, your lease expiry must coincide with the sub-tenant’s lease period.”
- **Damages:** “Ensure that you are adequately covered for damages as the sub-tenant is bound by the terms of your lease.”
- **Use of property:** “If you’re using the property as a warehouse for instance, make sure that the sub-tenant uses the premises in the same way.”
- **Re-stacking or relocating:** “Should you wish to opt out of your lease, be sure to consult a professional who can take you through the cost benefits.”
- **Breach of contract:** “Should a relationship turn sour, both the landlord and the tenant would need to place the sub-tenant in breach and sue for performance and/ or damages.”
- **Values and synergy:** “Sub-letting is more than just the division of office space to reduce costs, it’s about the merging of teams and cultures too. When selecting a sub-tenant, consider their values, philosophies, culture and line of work”.

On this last point, Thom urges those who are considering sub-letting to take the feelings of their own team into account.

“Creating a new working environment through this arrangement should be a joint decision so that the change in structure is communicated positively to all parties. We’ve been forced to be as agile and adaptive as possible in these uncertain circumstances – but change doesn’t have to be a negative,” says Thom.

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