

A BETTER OUTLOOK FOR COMMERCIAL TENANTS

This is the sixth edition of "The Independent", a newsletter aimed specifically at addressing the interests of tenants and occupiers of office and industrial premises. Traditionally the tenant has been the subservient partner in any landlord/tenant relationship. Since the days of serfdom, and the grant of Crown land legislation has been heavily weighted towards protecting the interests of the landowner. The commercial lease has in the same way been developed to safeguard the primary interests of the landlord. Attempts have been made to readdress the imbalance through legislation such as the Landlord and Tenant Acts seen in the UK and the Retail Leases Acts.

Fortunately the lot of the tenant has improved dramatically. Similar to the hotel industry where greater choice has meant unhappy or neglected customers simply go elsewhere, the same applies with the commercial tenant. The market has come to the rescue in providing a wider range of options and owners responding more sympathetically to tenant needs. Landlords have had to take a more flexible approach in their dealings otherwise risk losing quality tenants to competing premises; an example being the call for more sustainable and energy efficient buildings. Owners have sat up and taken note by offering more environmentally friendly buildings.

The supply/demand equation has acted as an efficient mechanism in ensuring availability of reasonably priced options and commercially acceptable lease agreements. With the shortage of affordable credit we are seeing an imbalance occur as vacancy rates plunge and little new development planned for the future. Lease terms in particular rent review and make good provisions tend to become more draconian the tighter the vacancy rate. However, as sure as summer follows spring the market will eventually correct this position. When - is another matter? In the meantime some landlords may exploit the current malaise and play hardball. For some short term investors this strategy may work. The main institutions and more astute private investors will however take a more pragmatic and reasonable stance in their dealings with their tenants. Such parties recognise the importance of tenant retention and like in any good marriage recognise the "for richer for poorer" principle associated with long term relationships.

Albeit vacancy rates are reducing and rents on the rise the recent share market slump will no doubt ultimately impact upon demand and result in owners taking a less bullish approach towards future lease negotiations.

The increasing recognition of the value independent property consultants or colloquially known as a "tenant reps" can play in ensuring fair and reasonable outcomes has also assisted in a developing a more even playing field. The tenant rep has helped in developing a clearer, more transparent understanding of the market thereby allowing tenants to make better informed decisions when selecting corporate premises.

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