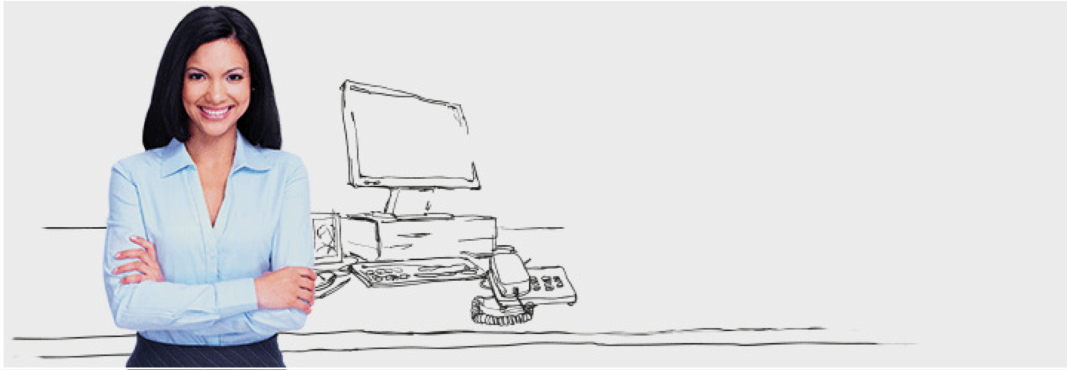

New lease of life: build a better property profile

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INVESTING in property is no longer the safe bet it used to be; debt is a key issue as values in commercial property have plummeted by almost 45% since 2007. Banks have also tightened their lending criteria requiring greater security, and despite taxpayer bailouts and government intervention, finance for new property investment is still difficult to obtain.

However, the pressure to fulfill pressing accommodation needs means finance directors may be tempted to sign lease agreements on what appear to be very attractive terms. Rent-free holidays and break periods. In many cases though, once a break period is reached, the option cannot be exercised due to high exit fees, long-term contract tie-ins, dilapidation costs and legal charges.

The recession has forced many directors to challenge this supply-side dominance and demand more choice from potential accommodation solutions. The result is the emergence of new offerings such as, managed office solutions (MOS) a concept that has been adopted by many blue chip organisations such as Vanquis Bank (part of Provident Financial), E.ON and BSkyB.

The MOS approach appeals because it means companies can secure the type of property they require in a location of their choice without incurring the risk that a traditional capital investment or lease agreement brings. Similar in concept to serviced offices, but with larger organisations in mind, MOS offers fully managed accommodation for a fixed monthly fee.

However, unlike serviced offices, the office design, equipment and most importantly the location and 'branding' can be bespoke. In the case of Vanquis bank, its use of MOS meant the company was able to acquire a new operational headquarters in Chatham, Kent, to house its 400 plus employees two years earlier than would have been possible by traditional means. In doing so it halved the long-term risks associated with property acquisition and provided options for future expansion that did not require any up front financial commitment. It also made provision for a clean exit in due course.

Contrary to popular belief, these arrangements are often be less expensive than a traditional lease agreement. A recent report published by Actium Consulting, the organisation responsible for producing the annual Total Office Costs Survey (TOCS), concluded that in many circumstances the costs were in fact lower than the equivalent TOCS standard.

There are several ways in which 'Managed Office Solutions' mitigate the risk of property ownership.

Transfer of ownership – A managed approach transfers the risk of ownership from the occupier to the service provider who procures the property and manages the fit-out to the occupier's exact requirements. This can include location, layout, IT, power provision, workstations, kitchen and break-out facilities.

Alignment of property portfolios – While the average lease has now dropped significantly over the last two decades, landlords, attracted by the covenant of larger organisations, will always hold out for the longest possible term. It is not unusual, for example, for a business to sign a lease term for say eight years based on a planning requirement that extends no further than five years. Even predicting what may happen to the business in five years is difficult as new market opportunities, changing economic climate, or a new merger or acquisition can all have an unforeseen impact on organisations accommodation requirements. As contracts for a managed approach are based on an operational basis, they can be negotiated so that they more closely align with sensible planning horizons.

Shorter time to occupancy – All too often opportunities are lost or relocations fail, not through the inability of a business to recognise the need to adapt, but the time that it takes to implement the additional resources required to meet the new challenge. Long delays on building projects, over burdened human resources, and legal issues with leases are just some of the problems that crop up when companies try to acquire new property quickly. With a managed office approach, the service provider takes this burden and it is their responsibility to deliver the accommodation on-time, and fit for use.

Management of the supply chain – Unlike traditional methods of property acquisition this approach includes a bespoke service with one partner/provider who not only delivers the required buildings, but who also simplifies the operational supply chain involved in property and office management. This means that the occupier only deals with the service provider, who in turn manages contractors, water supply, electricity, security, parking, internet connection etc. This allows the directors of the business to focus on their core business activities.

Exit costs – The charges for dilapidations, legal fees and contractual obligations can be a major barrier for many organisations leaving a property and relocating to somewhere more appropriate. As MOS is based on an operational contract, they can have options to extend, contract or walk away at the end of term without any additional cost to the business.

The fall-out from a poor property acquisition can seriously impact a company's balance sheet. Empty buildings, property in the wrong place and the wrong size, dilapidations, and refurbishments, and exit penalties are just some of the items that can put a serious drain on an organisation's financial resources. Unfortunately it is the FD that has to shoulder this burden. However, new types of property acquisition methods, based on a managed approach, can mitigate these risks. They have the potential to free financial professionals from the stranglehold of legacy property decisions, and allow them to focus on core strategic business activities.

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