

Subleasing office space can be a good opportunity for both parties

Excellent subleasing opportunities are opening up on the secondary office market, both in terms of rental rates and locations that enjoyed robust occupier interest just a few months ago. No long-term commitments are required and parties can help each other in the dynamically developing market situation, says Artur Sutor, Partner, Head of Office Department, Cresa Poland.

Warsaw and Poland's largest regional cities are reporting growing volumes of office space to sublease. Is this a new trend?

Subleasing is a way of cost optimization and it happened in previous economic slowdowns too. I think that the volume of subleased office space will grow for some time – companies are looking for ways to cut costs here and now. When the crisis is over, many will need their offices back again. We saw it in 2008, when companies doggedly pressed ahead with cuts, and subleasing some office space was an option. It lasted for about a year, and as the market began to bounce back, companies got back on track and grew even more. As a result, sublease listings disappeared.

What's it like today?

Some companies have seen a substantial fall in turnover after months of lockdown and have to cut costs. They are thinking about downsizing their office footprint, but it is quite complicated as office leases are contracts for a specified period. Early termination generates additional costs. Other organisations have, on the other hand, grown in recent months and need more office space - quite unexpectedly. All such companies can now help one another and agree honest and fair conditions of an office sublease. But matching the needs of two companies is not easy and depends on many factors, sometimes irreconcilable, such as location or awareness of sublease requirements among other firms. Engaging an agent who has the up-to-date market knowledge can increase the chances of success significantly - the agent knows how to match the needs of companies that may not even know of each other.

Subleasing office space is a way of optimizing costs by a tenant. What benefits can a subtenant expect?

For subtenants, it can be both a bargain price and a possibility of leasing an office in locations that enjoyed strong occupier interest a few months ago. Importantly, there is also a great deal of flexibility in negotiating the length of a sublease. The typical office lease length is 5 years, but in the case of a sublease it can be much shorter period. This is a good option for sectors that have grown in recent months such as IT and e-commerce. They need some extra square metres of office space but don't want to make long-term commitments. Some subtenants are also attracted by the fact that they can move into a fitted and furnished office almost instantly - and quickly move out too!

While office fit-out is an advantage for some, it's a disadvantage for others...

That's true. A subtenant accepts the layout of another company, has no say over the arrangement of walls, the type of furniture or the colour of a carpet. That's why a lot depends on expectations and the length of a sublease. If it is one year, for example, the subtenant will usually accept the circumstances, but if it is for several years, the subtenant could ask for adapting the space to his needs. And that's where challenges will crop up, because fit-out works would mean additional, unexpected costs for the tenant wanting to sublease excess space.

Will landlords contribute to fit-out costs?

Landlords naturally want to have tenants who are able to pay lease costs, but they are unwilling to 'subsidize' subtenants. Some negotiations end with a subtenant replacing the tenant. This happens for instance when the lease is due to expire in a year's time and the potential subtenant requires office space for a longer period. In such a case, the assignment of a lease can be linked with the landlord's contribution to fit-out costs.

The subtenant cannot negotiate the original lease, but will have to perform it. What are other risks associated with a sublease?

The subtenant had no say over the provisions but will read them before signing the sublease and will be aware of them. If the tenant defaults on his obligations towards the landlord, the subtenant will bear the consequences and will probably lose his office through no fault of his – that's the main risk. And another thing – before starting the negotiations the tenant has to obtain the landlord's consent to the subtenant moving into the office building. A provision in a lease agreement of another tenant excluding the presence of competitive firms in the building may be an obstacle then.

Negotiations of a sublease will usually take a few days to complete in contrast to months in the case of a lease with a developer. But things can get complicated at various stages, requiring quick responses and flexible solutions. That's why if you want to sublease your office space, it's advisable to engage an experienced real estate advisor who will provide comprehensive support in lease negotiations and legal review. If a new office fit-out is required, an advisory firm can also provide architectural assistance, project management and fit-out company.