



CORENET GLOBAL

VIRTUAL POP UP

A pop in community for **corporate real estate professionals**

Pop-Up Webinar: Key Takeaways

15 April 2020

What's your biggest challenge?

- We are consultants, and we are sort of being propelled through this by projects that have already been committed to. Moving forward, the challenge will be the fact that new projects are being held back. I'm not as concerned about what's happening over the next three months, but rather what's going to be happening after that. Another challenge is how to get face-to-face contact with people.
- I'm also on the supplier side of things. I have been in discussions with clients and customers on whether their strategy is changing. Some have had to forego some of their plans and projects but are keeping others intact. As with Singapore, our lockdown in Malaysia has been extended. Originally, it was set to end today, but now it has been extended to the end of April. This is affecting us because we are in discussions with clients about contracts, but we can't quite gauge when to have start dates until this is over.

As you start to bring people back into the workplace, what steps are you taking? What different scenarios or possibilities are you considering?

- We have about 25 people in our office in New Zealand. The move into lockdown was instant – kind of abrupt. We had to take things home so we could continue working. It has become quite normal for us now to be working remotely. As a result, we are not looking to straight away go back to the office. Is there a way of retaining some of our people working from home? We tend to be productive at different times of the day, so it works for us. Some of our people are asking 'why do we need to go back to the office?' And if we do, what do we need to do differently with the office? How do we reconfigure our space to better suit our needs, considering things like proximity, more hygiene, more frequent cleaning? I don't think we will be trying to rush back into a normal state because normal has gone away.
- I'm also in New Zealand. Following on that comment, we have just today started a bit of a program where we transition back into the office after being in a level 4 lockdown. The initial feel is that there will be groups who want or who need to continue working from home. There

will be people who have to come into the office for essential and emergency work. And then there will be people who can move between these two approaches, these two teams, which are being labeled. We are trying to maintain some form of social distancing, and that will depend on the level of lockdown as decreed by the government, whether that is level 3 or level 2. What does that mean for our buildings? What are we asking our landlords to do, and how frequently? This is going to be a real progression, and it will come down to people's situations as to whether they are going to be in the office. It certainly won't be everyone all at once.

As companies and landlords respond to concerns about building cleanliness and clean air, and as we try to keep people six feet apart, all that is not going to be inexpensive.

- I agree. My immediate thought is that we've spent the last few years trying to get people into less space and pushing people closer together and trying to provide attractive physical workplaces to help attract the right kinds of employees. Suddenly, it seems the whole thing is being flipped on its head. Different priorities, including costs, will drive a lot of the decisions moving forward. Companies will be looking carefully at lease renewals.
- I'm based in the United States. We did a study with our clients on how lease expirations will affect us. We have 20,000 office leases on our platform, and the average lease expiration, globally, is 3 ½ years from today. Unless something changes, this will be a huge impediment to companies' ability to do anything with their leases.

In those leases, do you have a range of termination clauses?

- Those break dates are of critical importance right now. There aren't as many as there used to be. We got into a little bit of a landlord market three to five years ago, when break dates were harder to come by. Companies were opting for more concessions on fit-out allowances or free rent. Lease termination clauses don't come for free, and they generally aren't there now.
- In terms of coming to the table to negotiate rents and leases with landlords, my experience in the last couple of weeks of knocking on the door of the typical landlord in Asia-Pac and seeking relief is that I've not really had as much of an allergic reaction as I would have anticipated. If we were having this discussion about breaks on leases a year ago, it would have been a different landscape.

A lot of contracts have a force majeure clause in which you are exempt from certain things, if you have a particularly big event. I'm wondering if we will see pandemic-type clauses in leases, underpinned by some level of insurance. Not sure if anyone has a view on that.

- Regarding force majeure clauses, we had SARS here in Hong Kong many years ago. After that, leases started to specifically mention potential pandemic situations. But after it was tested in court, it did not help tenants much in that situation. So, I don't think COVID-19 will necessarily change things in this regard.

What else is going on in Hong Kong?

- Hong Kong is interesting. We've not actually been in a lockdown here like we've seen in some other markets. We have had tightening restrictions on people's ability to move around. People are working from home. We have the option to work from home at our company, but the office is still open. We are actively practicing social distancing in our office, and every other desk is blocked off. As to the rest of Hong Kong, non-essential businesses are closed; gyms are closed; beauticians are closed; some bars are closed; and restaurants are operating at 50 percent capacity. The good news for Hong Kong is that the reported number of COVID cases is low and dropping. Almost all the new cases here are people who have traveled elsewhere and are in quarantine upon returning.

What's happening in Singapore?

- We heard yesterday that 80 percent of the work force here is working from home under the current situation, with just 20 percent going to an office. The government is now going to crack down even further on the definition of 'essential workplace' to reduce that 20 percent. On the positive side, the Singapore government is bankrolling salaries for local workers at 75 percent. To keep people employed, the government will reimburse 75 percent of payrolls, up from 25 percent.

Would anyone from another market like to weigh in?

- Here in Australia we're very much into the process of negotiating with private landlords as well as governments. Cash flow is key. Wherever possible, if we're on short-term arrangements or if we have leases coming up for renewal, our intention is not to renew anything at this point. We want to reduce costs as much as we can. Perhaps we'll take some coworking space so teams now working remotely can come together when they need to.

CoreNet Global

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