

Eduard Forejt, JLLS: money plays a major role but it all starts at the reception, too



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The latest figures on the development of the Prague office market suggest a certain, albeit slight, improvement. Is that so?

Yes, it is better. In short, only a few buildings are being built right now, but there are relatively decent rents. It is not easy to achieve results. And that goes for everybody - agents, landlords and tenants.

At first sight there are no reasons for tenants to have any concerns. The offer is still more than decent, they can choose and their bargaining position therefore must be good?!

This is really just the first sight, and very lay one, I must say. In more recent times, tenants have been quite generous, nobody worried about money. When we agreed on the fundamental parameters of the contract, namely the building, square metres and rent, the deal was actually struck. And when it later got more expensive than anticipated to finish the project, the tenants could arrange it quite easily with their parent company. That's why they did not worry.

And today?

It takes long to agree on the basic lease terms, in our terminology, the head of terms. Today the tenant has to know all the costs to the smallest details, down to the last screw, in advance. And even after that it still does not mean much. The potential tenant still does not know at this point whether he or she will move in or not. Only when the head of terms are approved by the headquarters or parent company, then we can move on. A good half of pre-negotiated contracts, however, falls under the table.

Is it possible to somehow avoid such risk?

It is not possible to avoid it totally, but you can certainly reduce it a lot. It means a lot of work though, a solid work in the preparatory stages. We have to work much more accurately. It's not all about facilities and metres any more, it is especially about money. And it is hardly just rent, there are operating costs, moving, building modifications, cabling and much more. Everything must be precisely quantified already in the preparatory stage. And when 6.10 pops up somewhere instead of 6.00, it is a big problem. There is a completely different situation. For example, it was quite normal in the past to forget a room for computer

servers. For a medium-sized company this comes to around three million crowns in costs. This used to be simply overlooked in the boom times and was sometimes later - and easily - fixed. Such an error or omission does not come into question from tenants today.

Well, in principle tenants must welcome such a change!?

As I said, the situation is not simple even for tenants, but otherwise you're right: The market is clearly focused on the needs and requirements of our clients and it is ultimately good for everyone.

What is the landlords' reaction?

Well, they must adapt to it and they do so. You can see it, for instance, during the negotiation of lease terms with a big or first tenant. In the past, agents did everything. Today, landlords never miss any fundamental meeting. It also has special importance today - the contract is sometimes frustrated due to bad impression of the behavior of the landlord. It is always important in the end, with whom I sign the contract.

Despite the importance of the cost?

Look, if you add up all the client's requirements and then compare it with the offer, you always get two houses. And here, the factors such as the behavior of landlord play a role.

What about the architectural quality?

I would say about 10 % of tenant's decision are made of these - let's say - non-financial and non-technical factors, it is just about emotion. Of course, money plays the major role, but there is always some room for emotion.

A lot has been said about the so-called incentives. How important are they for tenants?

They certainly matter, and landlords are willing, especially in case of credible clients, to make relatively large concessions. On the other hand: someone offers a three-month rent holiday and allowance towards the cost of moving, elsewhere nine months rent holiday but nothing else, and elsewhere they offer six months rent holiday and reimbursement of construction work. It is necessary to calculate it all accurately and together. In principle, some big tenants can get a big discount on the value of annual rent in current situation while literally the across house the street has worse conditions by half.

And how does the market perceive the currently very fashionable energy or green certificates?

As elsewhere in the Czech Republic, it is becoming increasingly important. Some companies already have their rules set this way, they just do not lease a building without a certain certificate. But this still does not fully apply to the Czech Republic. We can see that only few are willing to replace, let's say, a platinum LEED resulting in 20 % savings on rent in an other building of comparable quality, without a certificate. There is a willingness to pay more for certified objects in developed countries. The society is more sensitive to this issue and environmental awareness is stronger there. The expenses, or the price/performance ratio, still play the main role money here. No doubt this will change in the near future, and the certification will soon be necessary to succeed in the Czech market.

There is not much construction, but there is still some. What do you think is essential for a developer to succeed?

I have general advice, actually two. First: do not go into it if you have a bigger heart than reason. And the second: the same applies if you are not able and willing to listen to others. I do not want to promote

myself here, but a consultation with a qualified agent should protect you from major mistakes.

What are those mistakes?

The biggest mistake is to build in the wrong place. That means far from the underground, far away from services. Only few can afford to create a new and attractive site. For instance, BB Centrum managed this, it is an icon. You can see some kind of centripetal force working there, and eventually all the services are already there, they built them.

The second biggest mistake?

Of course, poorly adjusted rent. However, this does not happen very often. Everybody monitors competitors, so in this respect, mistakes do not happen very often.

Third one?

A wrong building. I'm talking about a building you just cannot really use efficiently. It has, for example, too much depth or inappropriate facade module. In such a building 1,200 sqm represent the same space for the client as 1,000 sqm in a well-designed house. The demand for maximum use of the space and site leads, of course, to some architectural unification, but more or less you cannot do anything about it. Today the cost is absolutely essential parameter for all market players.

So the architecture and its quality in a particular building does not play any significant role in tenants' decision?

It certainly isn't the main factor for market success. However, architecture is definitely of importance. I've already spoken about it. It is the 10 % remaining for the emotions, moods and impressions. From our point of view, reception is the most important place in this respect. The first impressions and feelings are created here, after all they are always important everywhere. Over the years of practice, I have already created one rule: if the client on arrival at the desk seemed surprised and leaned their head sideways, everything is lost.

And have you defined what a good reception should look like?

There is a story happening at the reception, based on prestige, relaxation. Therefore it should be airy, spacious and friendly. I can give you an example from my own experience. I worked on one big project. The reception in the first building was designed over two floors and a clearly visible spiral staircase led from the reception. Tenants just rushed in. It was even better in the second building. There was even very generous width added to that height, we did not have a problem either. In the last building, however, the developer gave the architect a free hand - and here my clients leaned their head one by one. The architect designed the reception one-floor-high and emphasized the spatial constraint by short accession. In addition, he made it all in elevational panel and exposed distribution system.

You mean the grey walls with rolling cables, fire alarms and building lights - which ultimately give the impression of a washing facility in a detention camp?

Thanks for those words. In terms of architecture, it is surely a wonderful thing - but in my experience this inspires only few people.