

Money-saving experts

Plenty of companies need help with commercial property issues just now – and saving money is driving most of that activity. Neil Fraser looks at which services are in demand and why

With the commercial property market still struggling to get back on its feet, the mantra for occupiers, landlords and agents is make do and mend. Refurbishment is the name of the game, with very few new buildings coming on stream, forcing landlords to look for new ways of maximising the value of their assets, and agents to reassess their priorities.

Witness the Beeches Industrial Estate at Yale near Bristol, where four units that were



SPAVEN Busy with dilapidations

due for demolition are being refurbished and have been re-let before the work has even been completed.

Paul Spaven, partner in the Bristol office of consultancy Tuffin Ferraby Taylor, pinpoints four issues that are driving the property services market: service charges, rates, dilapidations and sustainability.

"The number of dilapidations we worked on doubled in the five months to December 2009. Landlords have been forced to sit on their hands but still need to keep the value of their property up," he says.

The consultancy's dilapidations team has never been busier, says Spaven, and some



project managers have been re-trained to meet demand. Likewise, landlords with multi-tenanted stock are trying to get tenants to help achieve this through service charges, to which some tenants are starting to object.

"December was also our busiest month since the office was set up in 1973 in terms of carrying out surveys of commercial property," he adds. Initially I put this down to the VAT change, which came into effect on 1 January, but I was wrong. People are merely saying there are great bargains to be had, so the 'vulture funds' with cash to spend have gone on an end-of-year shopping spree."

Jeremy Richards, partner in charge at the Bristol office of King Sturge, agrees:

"Occupiers are basically looking at anything that will save them money. A lot of lease restructuring is going on, where people are looking to extend their lease and get a rent-free period or a capital contribution."

"If a company is moving, premises that are already fitted out are in prime position. But more often than not we are helping clients to refurbish their existing building, helping to make it more energy-efficient and reconfiguring space."

Another busy area is asset management, looking at occupiers' service charges and ensuring buildings are as efficient as they can be in terms of air conditioning, lighting and so on. Richards says: "People are only moving in extreme cases at the moment, but there are great deals to be had if they do – so the irony is that there has never been a better time to take space."

When David Smart, operations director at accountancy firm Smith & Williamson, began the search for a new building in central Bristol his mantra was "location, location, location".

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"We looked at where the other major financial firms were based and realised we were out on a limb in what was a slightly tired 1960s building in Clifton," he says. "It would have needed a lot of refurbishment. We wanted our 200 staff to be on one floor and ended up being the first tenant to move into Portwall Place in 2008."

As the market slowed to a snail's pace last year, law firm Thring Townsend Lee & Pemberton was one of the few organisations to take the plunge. The firm took two floors at the £35m Paragon building, one of just a handful in the South West to be

awarded a BREEAM 'excellent' environmental rating.

"We wanted something that made a statement about who we are and our place in the market, without being too bold to discourage our clients," says partner Colin Stratton, who heads the firm's commercial property team.

"Sustainability was high on our agenda. People are more aware of the need to reduce their carbon footprint and concerned about how they will be affected by the Carbon Reduction Commitment (CRC) from April. But the reality is that only the really big businesses will be affected – 20,000 organisations throughout the UK."



STRATTON Going green

The CRC (recently renamed the CRC Energy Efficiency Scheme) is a mandatory carbon emissions trading scheme to cover all organisations using more than 6,000 megawatt hours of electricity a year (equivalent to an annual electricity bill of £500,000).

Sustain is one of several specialist carbon management consultancies that has grown off the back of demand from occupiers for

energy efficiency advice throughout the South West. Senior associate Kevin Boniface says: "We have doubled in size in 18 months and now have 70 people."

"The CRC is a big driver but the general principle remains the same – we help organisations to reduce their energy demand first, then install more efficient technologies, such as solar panels and air source heat pumps."

Another trend creating demand for agents is "re-gearing" leases, says Peter Cole, director and head of lease advisory at Lambert Smith Hampton. He says: "In these cases our valuation team is called on to

appraise the impact on investment value. Our agents provide intelligence in assessing market conditions, and the building consultancy department is consulted for dilapidations and building condition advice."

For many occupiers, business rates are the biggest headache in a region facing the highest average increase in rateable values in the country, outside London. Richards' colleague Tim Western, based in King Sturge's Exeter office, says the latest revaluation amounts to a "business rate bombshell" and predicts a flood of appeals when the rates are due to be paid in April.

"This amounts to a double whammy for commercial property owners, when you take the empty rates into account," he says. "The problem is that the new rateable values are based on values in April 2008, when the economy was buoyant. Since then values have fallen, yet businesses will still be asked to find the finance for what will in many cases be a huge increase in their rates."

The rateable value of the Exe Box, for example, which is Exeter's largest distribution building, will soar from £444,000 to £550,000. And in Plymouth, Western Mortgage Services, which has three floors at the Money Centre, has seen its rateable value rise from £295,000 to £395,000.

Western adds: "I predict the Valuation Office will be inundated with appeals next month, many of which could take years to settle because of the sheer volume. In the meantime rates will have to be paid on the new rateable values."

Stratton at Thring Townsend believes the political uncertainty at Westminster, with a general election looming, has also had an impact on occupier behaviour.

"Before Christmas there was a rush to get things done and now people are wondering what will happen in terms of a new government. Whoever wins power is a bit of a red herring in my view because whatever happens there will have to be public spending cuts which will impact the property services market in this region in a big way."

"The bottom line is that the current market is tenant-driven," adds Mark Slade, associate director at Stratton Creber in Plymouth.

"Occupiers can ask their landlord: 'What can you give me to prevent me going down the road?' They know their landlord will want to be accommodating because they will face a rate liability if the building is empty for three to six months. This will be the overriding factor for anyone involved in property services until the economic and financial picture begins to change."