

CoStar Column: The seismic shift that may lead to a better balance

Duncan Lillie, partner, Shelley Sandzer professional services, says the property world is being changed for good by coronavirus pandemic, but how?



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While it may not feel like it today, this current period of chaos and uncertainty will pass, or at least lessen to the extent we can start to think about the what next. When that happens, the industry as a whole, and from all sides, should consider long and hard what the property world might look like in the not too distant future.

I anticipate an initial surge in business once the bars and restaurants reopen. With the prospect of less disposable income, however, this is likely to be short-lived, with spend receding before returning to anything like pre-coronavirus levels in a sustained manner. It will also take time for the easing of social distancing measures to take effect and we all get used to frequenting busy bars and coffee shops again. Tourism is going to take a hit too, particularly amongst international visitors, with a likely six- to 12-month period needed before it is back in full.

And most in the hospitality sector will need time to

recapitalise before they can acquire and fit-out new bars, restaurants and cafés. That said, we should expect a lot of consolidation, with mergers and acquisitions taking place as brands and portfolios are rationalised and reorganised.

These factors combine to create unprecedented market conditions that are likely to lead to seismic changes to the sector.

Leases, for example, will evolve as deals are inevitably structured differently. Turnover rents may well become the norm in the short-term as landlords and operators alike move to create more collaborative relationships where the risks and rewards are more evenly balanced as we work towards normality.

Leases will also need to be varied to allow for pandemic clauses. The sector has traditionally taken 10-year leases or more, but tenant-only breaks may be required to afford the operator greater flexibility.

Other issues that have been on the agenda for years, but have not been addressed, now need to come to the fore. For these changes to happen, however, it requires even more than the impact of coronavirus. The government must loosen its grip on just about every aspect of the property market. The 1954 Landlord and Tenant Act is an archaic piece of legislation long overdue an overhaul, or better still, replacement. A re-write of the rating system is obvious too, it being a flag bearer as coronavirus first took hold for the often unsustainably high overheads borne by many F&B



businesses. Upward and downward rent reviews must be on the cards as well to instil greater balance in the industry.

The important (and positive) role of landlords should also be recognised. In many cases, they have been unfairly criticised for being intransigent, yet it has to be accepted they too have their own liabilities to meet. And when times are good, landlords have an important role in placemaking, which creates footfall and sales for operators. In the current climate, many of the more creative landlords are continuing to work hard to connect consumers to operators in an attempt to sustain some business for their tenants. While that is not to say they need to loosen their grip as well, the focus should be on achieving balance, rather than implementing further punitive measures.

These factors must all be considered very carefully as we reflect on what has happened and what it means. We have all received an unimaginable shock, but the aftershocks will perhaps have the real legacy. At least we can be assured that landlords and tenants have a common objective to return to life as we knew it.

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