



## The Aussie Way of Doing Business

# Leasing Office Space Down Under

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Australia is known as the land down under where our nearest neighbours are New Zealand and the major emerging markets of Asia. It is the birthplace of great Aussie icons like Steve Irwin and Crocodile Dundee.



Aussies are known to be very friendly and relaxed. Most cities enjoy an amazing array of gourmet delights, and the climate allows us to enjoy the great outdoors almost year-round. But corporate leasing in Australia is very different than in the USA, and it is important to understand Aussie business terms and practices.

### **Business 101**

The following overview will be useful to any company that wants to establish a presence in Australia:

- **Taxes.** Without question, the taxman always comes first. The two primary taxes that affect business operations are corporate tax, which is 30 percent of the

net profit, and GST (Goods & Sales Tax), currently at 10 percent. Tenants pay the GST on all lease charges.

- **Working Hours.** The legal standard working week is 37 hours, but this number can be fuzzy because we have a “work hard, play hard” mentality, and it’s difficult to determine if people only work 37 hours per week.

- **Year End Holidays.** It’s not an official holiday period, but offices, especially in the real estate and construction industry shutdown for two weeks over Christmas and New Year’s. If you’re working out a Lease Commencement Date, avoid this dead period or account for it.

- **Time Zone.** Perth, on the west coast, is in the same time zone (GMT+8) as Singapore and Hong Kong. On the east coast, Sydney, Melbourne, and Brisbane are two hours ahead (GMT+10). Some Australian states have daylight savings and some don’t. Sydney is 14 hours ahead of the USA, 10 hours ahead of London.

- **Currency Exchange.** The Australian dollar has been falling for some time, making Australia less of a financial burden than it was a few years ago.

## Tenant Representation

You will find that corporate leasing—and the legal system—in Australia are somewhat like the United Kingdom:

- **Tenant and Landlord.** We use these terms, too, but it is also accepted to see them referred to as Lessee and Lessor.

- **Brokers.** In Australia, this refers to stockbrokers or insurance brokers. Here, “agents” act for owners and “tenant representatives” act for tenants.

- **Outgoings.** You probably call them pass-throughs. There are some tricky things that get added to outgoing that negatively add to the corporate bottom line. Tenants should avoid paying for anything that is a capital improvement.

- **Build to Specification.** This is the same as Build to Suit where a building is built to tenant specifications and leased to the tenant.

- **Fitout.** In the U.S., this is called Build Out. The tenant’s fitout is usually built by the tenant and remains part of the tenant’s property.

- **Net Lettable Area(NLA).** The measuring guidelines are set by the Property Council of Australia. NLA is an essential component of a lease to avoid paying for unnecessary space (e.g. stairs and bathrooms are excluded from the NLA measurement).

- **Space Size.** Almost everything in Australia is calculated in the metric system, so it’s per square metre for office measurements. The rule of thumb is to multiply the square metres by 10 to get an idea of what the figure is in square feet.

- **Reinstatement.** This term is also known as “make good and restoration.” It is the requirement to return the tenancy into the same condition as at the beginning of the lease. This is negotiable even though many agents falsely represent it as non-negotiable.

- **Base Build.** This is the expectation that fixtures and fittings will be in place prior to the tenant starting its fitout. We generally expect an office to include painted walls, carpet tiles, ceilings, lighting, power points, and air conditioning, but other items can be negotiated.

- **NABERS Rating.** It is the national guideline for environmental building design—similar to a LEED rating. It seems buildings with a four or five-star NABERS Energy Rating have significantly lower occupancy costs than those with only two or three stars.

- **Rent Reviews.** Annual fixed increases are fairly common, but for longer leases landlords tend to look for market rent reviews throughout the lease term. Think of it as evaluating the market and negotiating a rate every two or three years. The way the market rent review is drawn up is critical to achieving the best result for the tenant.

- **Stages of Leasing.** We start with an “Offer to Lease” or a “Lease Proposal” that establishes the terms to be negotiated. There is no set format for the proposal, so the complexity depends on the structure used by your tenant representative. This proposal goes back and forth between the opposing parties until agreement is reached, although we often find a face-to-face meeting more productive in closing a deal.

Once agreement has been reached, we arrange sign off by both parties on a “Heads of Agreement” that can bind the parties to a lease even though a lease hasn’t been prepared. From here, the lawyers prepare the lease document for signing (and perhaps further negotiation on the legal terms).

## Conclusion

One last but important aspect of tenant leasing in Australia is that the tenant pays the tenant representative’s fee. The only way to achieve “conflict free” representation is for a company to appoint their own tenant representative. If the tenant pays the fee, then the tenant representative is bound to advocate and protect the tenant’s best interests. At ACORPP / ITRA Global, a tenant will find that the savings achieved in “conflict free” negotiations far outweigh the payment of professional agency fees.

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