

OFFICE FITOUTS

**Is Capital funding or
operating lease the
way forward?**

*Which one is a better option
for your business during a
global pandemic?*

*Unravelling the myths of lease
vs ownership of fit-outs.*

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Lease Or Invest Office Space: Which One Is a Better Option For Your Business During A Global Pandemic?

Introduction

Many companies around the world have now realized that an aesthetically designed office space has a significant impact on corporate culture. In fact, according to a recent Clutch “Future of Work” survey, a majority of employees (61 percent) who work in a desk environment have high regard for aesthetically pleasing and comfortable workplaces while 53 percent of people value the flexibility to work in different locations. Several employees preferred having a dedicated office and desk, and about 47 percent of employees value a community-focused atmosphere in the workplace. So, it is safe to assume that all workers, irrespective of their age and taste, value a workspace that is pleasant, spacious, modern, and comfortable to work in.

However, there is no denying that building and designing an office space is a big investment for a company. And sometimes, investing in one can lead to the stalling or cancellation of other projects. While most of the companies have surplus cash on their books, the fact is that office spaces are depreciating in nature and companies prefer to invest their cash in higher yielding assets. Leasing office fit-out & fixtures is an ideal way to convert capex (Capital expenditure) into opex (Operating expense).

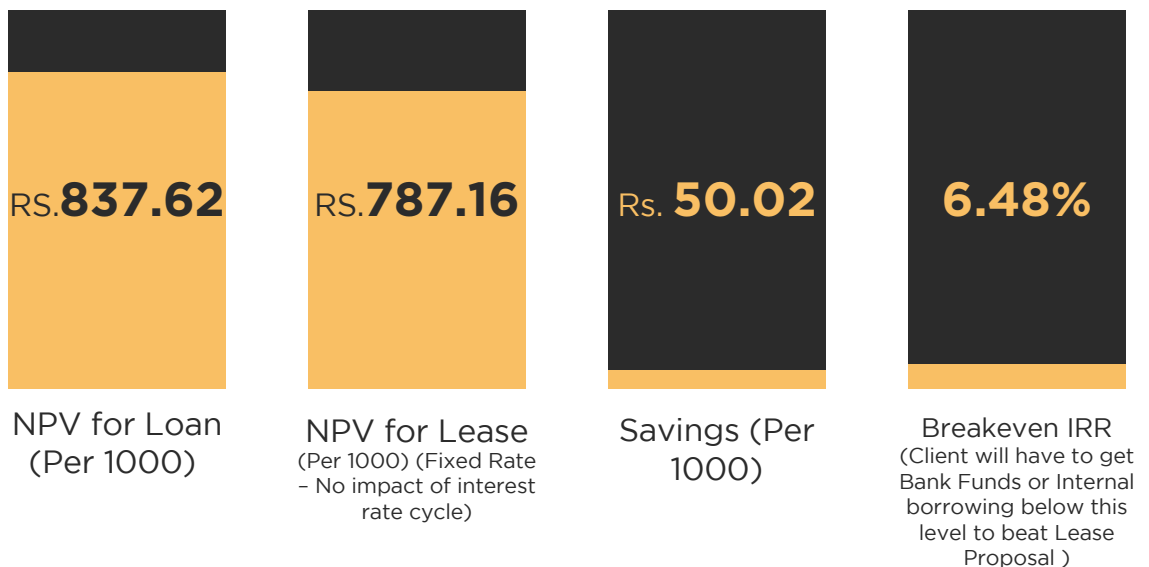
Benefits Of Leasing An Office Fit-Out

The biggest advantage of leasing is that it does not require you to pay the entire amount upfront. This helps you invest the money in other projects that need financial support. Some of the merits are highlighted as below:

1. **Flexibility** – The best thing about leasing an office fitouts is probably the flexibility that it brings along with it e.g., flexibility in terms of payments. You have complete control to determine the details of your repayments and also if you wish to extend the term of your lease. The reins stay in your hands at all times.
2. **Tax Efficiency** – Leasing an office fit-out has certain tax benefits that making a capital investment cannot provide. Since a lease transaction would be considered as an Opex therefore, it would allow a substantial tax saving in the transaction as compared to capex. For example, when you invest in an office space, the equipment can be written off using a 10% depreciation in 15 years. But if leased, rentals can be written off during the lease term (1-5 years) saving you a substantial (> 20%) amount on financing cost.
3. **Forex Loss Protection** – Leasing allows you to pay for the asset over its lifetime from the revenues generated in India. This helps to reduce or eliminate losses on account of forex.
4. **More Capital In Hand** – By not putting all your eggs in one basket, you have the chance to invest your capital on other aspects of business like hiring new staff. You can make investments based on the needs of your business rather than missing out on opportunities due to a cash crunch.
5. **Fixed Payment System** – When you lease a space, you need to pay a fixed amount during the lease period. This helps to make cash flow-planning accurate and also eliminates any unexpected outflows.

6. **Quick and Efficient** – Leasing an office fit-out is the quickest way to get an office space because it takes only a few hours to finalize the deal, unlike loans that can take months to be approved

Here is a graphical representation of your tax advantage for 3 years.



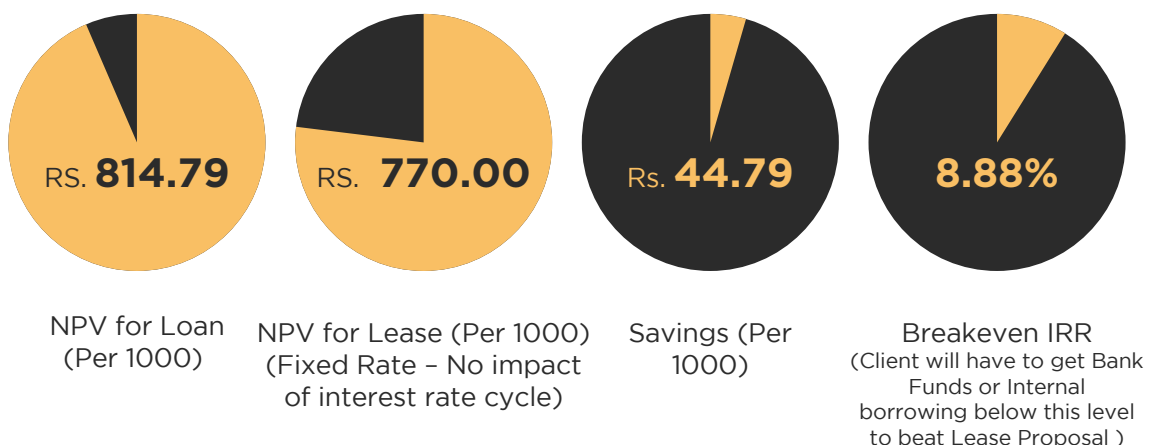
Office Fit-outs: Global Trends

2020 marked the beginning of a new decade and also the beginning of a very exciting year for the commercial fit-out industry. The last few years made us see how rapidly the world around us was changing. Today, we live in a world that is digitally connected and where technology rules the roost. With robotics, AI, and automation taking over most workspace functions, companies around the globe have had to pay attention to the evolving environment and adapt accordingly. With the demand for agile commercial spaces increasing globally and the disruption of traditional economic models, the fit-out market has observed an increase of customers as most companies now focus on building sustainable environments by using the best technology.

Mentioned below are few interesting trends that have been noticed in the past year and we believe, will continue in the next few years to come.

- **Best Use of Technology** – We have mentioned how workspaces have been greatly inspired by technology. However, technology actually plays a greater role than just keeping everyone connected. In today’s modern workspaces, technology is used to make work better, interesting, easier, and also to take care of the well-being of the employees. Some of the modern tech tools include wireless access points, smart badging data, phone apps, etc. Work trends around the globe suggest that the ideal workspace in the future would be the one that accommodates augmented/virtual reality (AR/VR), IoT (Internet of things), remote monitoring, 3D visualization, and a flexible workspace.
- **Need For Dynamic Working Spaces** – Even though it is not always seen that way, space is a very important resource for any commercial entity. A working space not only acts as the face of the company but also impacts the productivity of the employees. Trends show that many companies have started to incorporate multi-functional spaces that focus on activity-based work over the last few years. For example, collaborative areas for group projects, quiet spaces for focussed work, etc.

Here is a graphical representation of your tax advantage for 5 years.



- ***Incorporating Nature in Workspaces*** – A trend that has topped the list in the previous year is the incorporation of more greenery in workspaces. Gone are the days of artificial lighting and marble structures. The workspaces of today are more inclined towards biophilic design where natural light or natural materials are used in the architecture. Employers now believe that incorporating nature in offices helps to create a soothing and relaxing environment for employees and enhances their productivity too.
- ***Energy and Environmental Impact*** – Last year saw how important these considerations were for commercial fit-outs. For example, a new European Directive, Nearly Zero Energy Building (NZEB), was introduced in 2019 that stated that any commercial lease space must be producing 20% renewable energy on-site. By 2020, this would be applied to all commercial spaces. In terms of global certifications, LEED (Leadership in Energy and Environmental Design) Version 4 is the current standard, and Dubai is leading the way in terms of LEED certification, as the city with the highest proportion of ongoing commercial projects with a LEED certification at 81%. In Dubai, for example, the commercial sector alone accounts for 38% of the UAE's energy consumption. However, there is a big push within the UAE for improved efficiency and new regulations will soon be introduced to reduce electricity and water consumption.

The Commercial Fitout Lease Scenario in India

The commercial fit-out lease concept is fairly new in India but is slowly catching up with the corporates due to its many benefits. Currently very few companies offer this flexibility and SKV is leading this trend in offering this facility to its customers to help them save both time and money and also boost their business while working comfortably at an office of their preference. However, one must keep the following pointers in mind while signing a commercial lease document.

- Commercial leases are not the same as residential leases. Residential leases are C2C (customer to customer) i.e. between two individuals (usually the tenant and the landlord). Commercial leases are, however, generally B2B (business to business) or C2B (customer to business) since the tenant, in most cases is a business/ company.
- Almost every commercial lease usually has a lock-in period, which is three years in most cases. Tenants do not have the right to vacate the premises during the lock-in period.
- Recent trends show that rents in the Indian metro cities have been growing at 10-12% every year, which is way higher than the escalations of 12-15% every 3 years usually structured in the commercial leases. So, taking into consideration a 15-year lease period, a tenant usually ends up paying a significantly lower rent as compared to the market rate.

Covid 19 and Its Effect on Commercial Fit-out Industry

When we ushered in the new year, little did we know that we were also inviting a very unpleasant guest who would not only affect our lives but also the global economy! The SARS-CoV-2 that causes the infectious disease Covid-19, resulted in a global pandemic and locked down the entire world for several weeks now. And while things might look bleak now, we know that there is a life waiting for us after this is over. A life where we get back to doing what we did before all this started, but with more caution and care.

In terms of commercial real estate, assuming social distancing measures could soon become the new normal, cinemas, retail stores within malls or local grocery shops may be forced to completely upturn their business models to account for these unprecedented changes.

However, the biggest change to commercial space will be the use of offices. Currently, many companies are functioning with their staff working remotely.

But as restrictions start to ease, offices would need to open their gates to their staff once again. But if reports are to be believed, the biggest shift economically is likely to be the reduced need for big office space, since companies would need to reduce overheads and costs in the new business world. This could lead to companies wanting to downsize to smaller offices for essential face-to-face meetings. And this is where fit-out companies can help by providing the perfect customized working space on lease.

Sure, the global pandemic will have an impact on construction projects, on developers, office occupiers, but it is only temporary. We believe that we shall come out of it stronger than ever. And as India gets to work, we have a chance of making the lives of everyone better by organizing our workplaces differently and smartly.

SKV India - Who Are We

We are an ISO-certified business with over 10+ years of experience in offering turnkey interior solutions for office spaces in various sectors like hospitality and retail. We believe in adhering to the best of business practices and offer high-quality services along with competitive prices to fulfill the needs of our customers. Our team of trained professionals undergoes regular training sessions to stay updated with the latest market trends in the industry to provide nothing but the best options to our customers.

At SKV India, we offer our office fit-out leasing services to the following organizations.

- Clients from sectors like IT/ITES, consulting, hospitality, real estate, pharmaceutical, FMCG, banking, manufacturing, etc.
- MNCs with a strong global presence and a strong parent company or Indian companies with an impeccable financial record.
- Clients with a credit rating of BBB + and above.
- Clients who can furnish the audited financials of the last 3 years.
- Clients who are ready to support the transaction with either a part or full collateral.

Why Choose Us For Leasing An Office Fitout

- We value time and so, we do not hesitate to go the extra mile to ensure that the projects we take up are delivered on time.
- We believe in supporting our clients throughout the journey that they undertake with us. We listen to their requirements carefully and do our best to take care of every small detail.
- We have over 10+ years of experience in this industry and have so far built over 250+ office spaces.
- Our long list of customers speaks for the quality of work we deliver. Time and again, we have delivered projects that have exceeded the expectations of our clients and we want to continue the good work.

Conclusion

From designing your office space according to your taste, to making the entire process hassle-free, our team at SKV India strives to provide you with the best rental experience. For us, the association that we share with our clients is extremely important and hence, we continue to support them in all possible ways even after the delivery of a project. So, if you wish to delve into the exciting world of office fit-out rentals and help your business grow by availing the numerous benefits, click right here and we shall get back to you at the earliest.

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SKV India offers multiple packages including FitOut Leasing and Furniture Leasing.

For more information please write to info@skvindia.com

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