



## Pandemic-Scarred Tenants Leave Nothing To Chance As Leases Come For Renewal



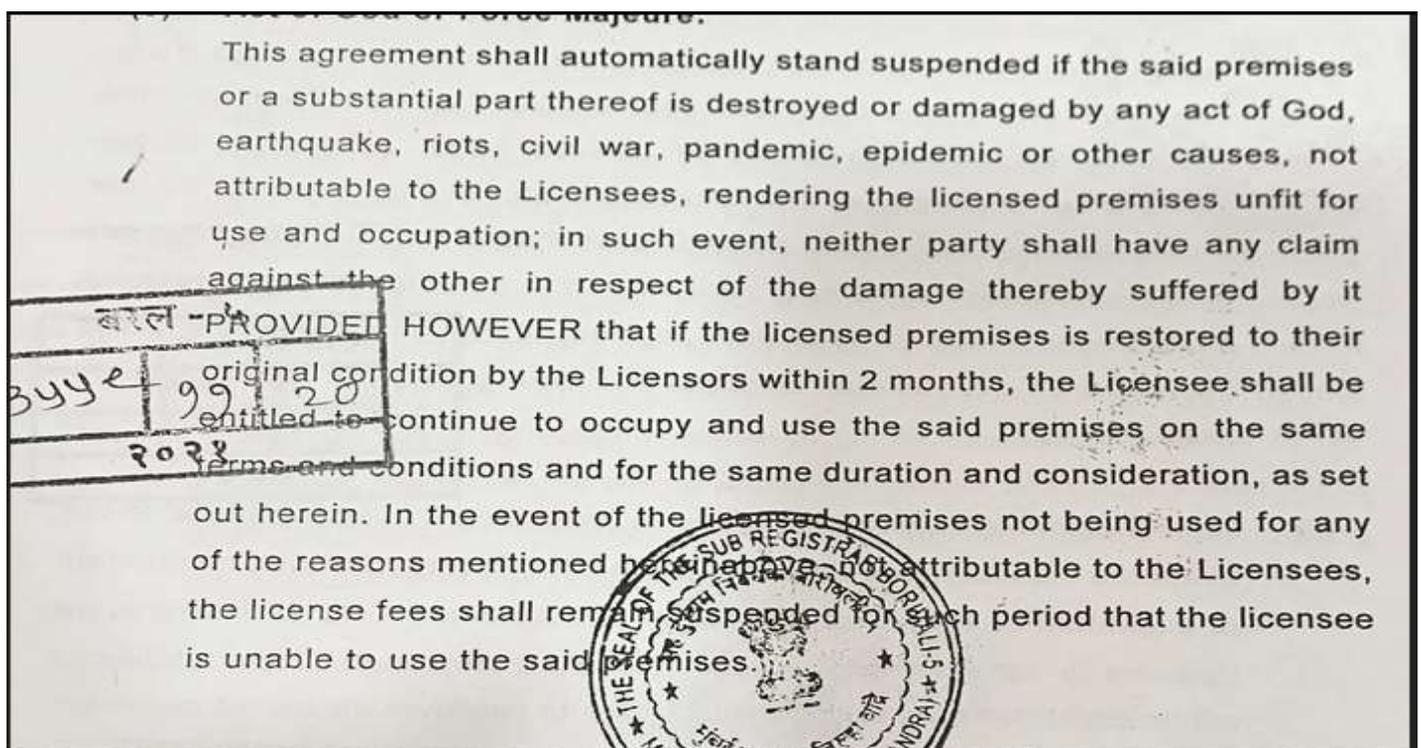
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After the Covid-19 disruption, Ramprasad Padhi didn't leave anything to chance when he leased space for his new office in suburban Mumbai. His new pact lists a pandemic among unforeseen risks warranting payment waiver.

“When I leased my new office, I inserted the clause that if I’m unable to use the office for reasons beyond my control, such as lockdowns, rent will remain suspended for that period,” the 51-year-old realtor and commercial real estate adviser, working out of the western suburb of Borivali, told BloombergQuint. The word “pandemic” is included in the force majeure clause now.



As the country went into one of the strictest lockdowns to combat Covid-19, employees logged in remotely. That caused office vacancy levels to rise as new leases were either delayed or cancelled. Now, tenants seeking space are cautious even as India is inoculating people and cases have fallen from their peak.

Commercial leasing arrangements have changed since last year, according to Mrinal Kumar, partner at law firm Shardul Amarchand Mangaldas & Co. “Some of the main changes that we have come across are—tenants are negotiating with landlords to incorporate lease rental waivers in case of a Covid-19-like situation, including government lockdowns. And the landlord is negotiating for a minimum guarantee with respect to the monthly lease rent.”

Kumar said amendments in the force majeure clauses that he has come across include the terms “pandemic” and “epidemic”. Stoppage of business due to orders passed by the government, and redressal mechanisms such as suspension, waiver or reduction of lease rental payments during the pendency of such force majeure events are also being incorporated, he said.

There is a continuous push from occupiers to include pandemic and lockdown under the force majeure clauses but most landlords are not in favour of making such changes, according to Naveen Nandwani, managing director of commercial advisory and transactions for Savills India. “Due to increase in vacancy in some micro-markets, landlords are offering more favourable leasing terms for clients looking at space”.

RMZ Corp., the owner of office buildings in Bengaluru, Chennai, Hyderabad, Delhi-NCR, Pune and Mumbai, said it hasn’t made any drastic changes in its lease agreements. It counts Accenture, Google Inc., HSBC Holdings Plc., Honeywell International Inc. and Cisco Systems Inc. among its tenants.

“The clients are asking us to add ‘pandemic’ specifically as a force majeure event for not paying rent, but we haven’t agreed to this,” Thirumal Govindraj, the company’s managing director (executive board) told BloombergQuint over the phone.

“Right through the pandemic, clients had their IT teams coming, keeping the offices clean, sanitising and ensuring the servers are operational,” Govindraj said. “If they’re doing business, why should landlords suffer?”

In the commercial space the major players haven’t agreed to any notable changes to their existing terms and conditions, according to Avikshit Moral, partner, corporate commercial and real estate at Juris Corp. ““However, they were lenient on conditions like payment delays to not trigger an event of default during the lockdown.”

Govindraj said changes are incorporated when existing agreements come up for renewal, but only when they’re beneficial for both the parties involved. If the tenant asks for delay in rent increase, the property owner seeks extension of the lock-in period, he said.

“When clients renew, they tend to agree to a lock-in of not more than 36 months,” Govindraj said. “We’re saying that if the escalation is out, then you should increase the lock-in by at least four or five years.”

BloombergQuint emailed queries to other large office landlords including Brookfield REIT, Embassy Office Parks REIT and Mindspace Business Parks REIT. While Brookfield REIT declined to comment, the others are yet to respond.

Amit Goenka, managing director and chief executive officer of Nisus Finance, said tenants won't be able to push through changes. “As long as the government doesn’t issue any exemptions from rent payments, cordial negotiations with landlords are the best way forward for businesses.”

## WHAT TENANTS WANT

### Top three changes in lease agreements tenants want:

- 1 Incorporate lease rental waivers in situations like Covid-19, government-mandated lockdowns.
- 2 Words like pandemic, epidemic and stoppage of business due to government orders as force majeure events.
- 3 Redressal mechanisms like suspension of waiver or reduction of lease rental payments during the pendency of force majeure events.