3 Reasons Why Office Leases are Getting Shorter

During these unpredictable times, it's difficult to plan ahead - let alone a year or more down the road. Navigating these unexpected, unprecedented and largely unimaginable circumstances have put the entire commercial real estate industry on its toes.

On the long list of things impacted by the coronavirus is commercial leasing. Interruptions to new deals, lease renewals, and tenant retention were a primary concern for the entire business as the pandemic worsened across the globe. After all, a tenant falling out of a lease can be catastrophic for commercial portfolio returns… especially during a tough market period.

In the midst of all these external pressures, commercial leasing still moved forward. As a future-proofing safeguard, short-term leases emerged as a defensive strategy for both companies and office landlords during COVID.

Short Term Leases

In commercial real estate, leasing is usually locked in for the long run. Typical leasing durations can span from 5, 10, to even 15 years or more.

During normal market conditions, this long period is beneficial for both tenants and landlords. Owners can rest assured that their ROI is secured for years to come without having to worry about finding a new tenant and negotiating a new lease. Companies love having a solid home for their business as it gives them the room to comfortably grow as needed.

But COVID has turned these office leasing norms upside down. Right now, short-term leasing is supporting CRE. Here are 3 reasons why short-term leasing is dominating the office sector:

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Preparing for Sudden Changes

In a time when things are changing in the blink of an eye, short-term leasing is helping the office industry remain pivot-ready. Landlords would prefer for a tenant's lease to gracefully end instead of suddenly losing an occupant. This way, property operators can plan and prepare for tenant turnover rather than getting caught off guard.

More Flexibility During Uncertain Times

The reality is that no one can definitively predict the future. New regulations may be on the horizon that we're not presently aware of. A repeat instance of what happened this year, where markets close and offices are forced to go remote, could happen. While these possibilities were always existent, COVID has made them much more 'real' to prospective tenants.

During these unpredictable circumstances, shorter leases are giving both tenants and landlords the flexibility they need to feel comfortable at renewal. This is especially important for offices, as companies are being restructured from the inside out based on what ultimately plays out.

Changing Office Needs

The pandemic proved to companies that remote work was a feasible alternative to fully on-site teams - in an incredibly drastic way. It seemed like teams went from in-office to at-home overnight, forcing even the most hesitant companies to adopt remote workflows.

Now that being out-of-office is normalized, many companies will be adjusting their team protocols to include remote and in-office teams. Because of this, companies may not be able to accurately predict what their needs will be in the future. Short term leasing is helping companies make it through this difficult period.

For these and many other reasons, short term leasing is currently standing as the baseline for CRE's office sector.