A tale of two cities

We are yet to see if there will be a significant ‘Brexodus’ of UK firms following final sign-off on Brexit. But if there is, Paris and Düsseldorf could prove attractive relocation options

Now that Brexit has come into effect, Paris offers many opportunities for relocation. Some business may choose a building in central Paris. Alternatively there is the famous Triangle d’Or, which is the Paris Central Business District, situated between the Champs-Élysées, Avenue Montaigne and Avenue George V. Also popular is the ever-changing skyline of La Défense business centre. Rent for new buildings are usually as high as €900 per sq m or more.

Although the CBD would provide a stylish showcase in Paris, La Défense might better suit those wanting to relocate a large number of employees. Rent here is slightly cheaper at €750–€850 per sq m for new buildings. Indeed, Paris comes with a high price tag – which is mostly due to the fact that there are only around 2% vacant offices in the city. Landlords tend to offer rent reductions of 20–30% (depending on whether you’re renting in the CBD or La Défense) through rent-free periods to ensure long-term occupancy.

For companies that are unsure as to what their long-term needs will be and are looking to test out the Paris market, the city has plenty of co-working options, whether in central Paris, La Défense or on the outskirts of the city.

French legislation provides a number of leasing agreements; some of them require a rather long-term commitment, while others allow more of a “trial period”:

- You can enter into a commercial lease agreement, which has a minimum term of nine years (with a tenant option to leave every three years) and offers a certain level of protection to tenants. For example, the cost of major repair works cannot be borne by tenants (despite any provisions to the contrary). Yet the most relevant example is probably the fact that tenants benefit from an actual right of renewal at the end of the lease. Landlords are only entitled to refuse to renew if they agree to pay an eviction indemnity to the tenant. The indemnity is calculated, among other things, on the value of the business goodwill of the tenant;
- If nine years is too much of a commitment, companies can settle for a short-term lease (maximum term of three years) while testing out new premises. Although no right of renewal is granted to the tenant, it is a viable solution for companies that expect to expand rapidly or that expect to shortly relocate a large number of employees. Moreover, if the trial is successful, a business may always enter a commercial lease at the expiration of this short-term lease; or
- One last option is to enter into a service agreement, which would allow a business to occupy office premises while benefiting from an ‘all-inclusive’ service agreement. This solution is becoming more and more popular for tenants but some investors remain cautious about renting their premises to co-working companies. This could, however, be a good solution for companies wanting to rent limited space areas, as it provides less security than a commercial lease agreement but much more flexibility.

For businesses considering Germany, there are many attractive options: a new office can be let, bought as a finished building, or developed and built on a property as part of a project development. To decide which city is the best option, businesses need to consider the trade tax. This varies between municipalities – Düsseldorf, for example, has a trade tax rate of 440%, and nearby Monheim 260%.

Usually the most flexible decision might well be to opt for a lease. Commercial leases are easy in terms of formalities; the signatures of both parties under the contract deed are sufficient. A notary is not required. A suitable rental property can usually be found through an agent. The costs are around three months’ rent. Leases are usually entered into for a term of five to 10 years, and often include the option to renew for a further five years. The terms of the lease can be agreed relatively freely between the parties. In practice, certain standard terms have emerged that have become tried and tested in commercial leases. The German Civil Code only applies if the lease does not contain any explicit contractual agreements between the parties. The rent is typically calculated per sq m. But be careful – in addition to rent, tenants usually pay admin costs (2-3% of the rent) and all ancillary costs, which are often around €3.50 to €5 per sq m per month. Tenants are also responsible for maintenance and repair, as well as redecorating the premises. Landlords also expect a rent deposit of three to six months’ rent.

In prime locations, space is expensive. There is no guaranteed right to sublet or assign the lease to another company. If you have entered into a fixed-term lease there is no quick way to terminate it. All of this requires the landlord’s approval, which may cause delays. The alternative to leasing is to buy a property. This can be done directly as an asset deal or indirectly as a share deal by acquiring the company holding the property. The brokerage fee is between 6% and 7.5% of the purchase price. Notarial certification of the sale and purchase agreement is mandatory. Any domestic and foreign company and any natural person from any country in the world can acquire property in Germany.

Real estate transfer tax is also payable. This varies between states, between 3.5% and 6.5%. The owner is then put on the land register. A purchaser can rely on this as land register entries are binding on all.

The actual acquisition process usually takes six to eight weeks, but can be longer for more complex deals. Once the sale and purchase agreement is completed, the buyer takes over all existing lease agreements as well as any local legal restrictions listed in the land register.

If you want to relocate, Germany is certainly a most attractive choice.