

COVID-19 and Your Business



We Are Your Partner

As your unbiased advocate, we're committed to supporting you and your real estate strategy during this incredibly challenging time.

While it's impossible to predict the long-term impacts of COVID-19 on global business, we're committed to helping you develop a roadmap that encompasses both your immediate needs and opportunities for strategic investments.

The following pages offer a general overview of the risks posed by the pandemic, as well as guidance on requesting rent relief and communicating with your landlord (or sublandlord) during this time.

This is fluid situation, and we will continue to expand on these recommendations as things continue to evolve.

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Immediate Actions

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These actions should be taken immediately to assess the impact of COVID-19 on your organization.

Connect with your landlord(s) and subtenant(s).

Keep a strong line of communication with all relevant parties over the next few months.

Explore short-term rent relief.

Consult your Cresa advisor about making a formal request for rent relief.

Fully understand your rights.

Review the force majeure definitions and business interruption insurance language in your lease.

Avoid a lapse in landlord notices.

Ensure the lease requires landlord(s) to deliver important notices to a corporate address or a unique email address. This ensures important landlord communications do not go unnoticed.

Maintain a log of communication.

Capture both written and verbal communications with your landlord(s).

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Are you a sublandlord?

It's important to reach out to your subtenants to assess their viability. Prepare for potential defaults, non-payment of rent or subtenant requests for rent relief. You will need to formulate a formal process to assess such subleases.

Are you a subtenant?

It's important to engage with the sublandlord and master landlord. If the sublandlord defaults under the master lease, your rights to maintain occupancy are at risk.

COVID-19 Risk Assessment Overview

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Risk	Description	Impacts
Slowed Response From Counterparties	Response time from landlords, tenants, and potential real estate investors has slowed; Many are reluctant to make decisions in this environment and/or are focused on crisis management and personal matters.	<ul style="list-style-type: none">• Slow down in workflow and inability to close transactions on schedule• Risks to strategic program implementation timelines• Uncertainty regarding whether transactions in progress will move forward as anticipated
Landlord Financial Health	Smaller landlords who predominantly rely on income from tenants could face financial challenges that make it difficult for them to perform.	<ul style="list-style-type: none">• Should a landlord become insolvent, a risk assessment should be conducted on landlord maintenance of the asset/center, profile of potential new landlord
Rental Rate Uncertainty	Lease contracts you finalize “today” are being made in an environment of uncertainty around future rental rates.	<ul style="list-style-type: none">• Deferring new lease commitments by 30 or 60 days or more could possibly result in the ability to tap into lower market rents• However, this potential for rate reduction needs to be balanced against the risks of losing current or prospective sites if contracts are not finalized or renewal options lapse• Where possible, pursuing formal renewal notice extension dates from landlords in this environment can eliminate risk and allow the markets to settle before locking in new terms
Subtenant Financial Health	Subtenants may be facing a loss of income and may be challenged to meet rent payment commitments or may even go out of business.	<ul style="list-style-type: none">• You should anticipate subtenant requests for rent relief, lease modification or even early lease termination in the coming months• A holistic and consistent approach to subtenant management should be created that considers financial, legal, as well as community relations/brand image impacts
Force Majeure Clauses	Most leases have force majeure clauses that spell out obligations of either party which may be waived in the event of an act of God, war, government action, or epidemic.	<ul style="list-style-type: none">• You should assess your obligations under force majeure, as well as your landlord's/landlords'• If you are a sublandlord, you need to understand your obligations and which subtenant obligations you are required to waive

Potential Scenarios

Outlined below are potential scenarios that may be brought on by COVID-19.

Abandon Your Lease

- If you choose to vacate a location due to COVID-19, you likely have no right to request a rent abatement. Ask your advisor to review your lease to be sure.
- If you vacate, we recommend you submit a Waiver of Abandonment to your landlord citing COVID-19 as the cause for closure. While it's unlikely landlords will file defaults, legal entanglements should be avoided at all costs.

Landlord Closes Your Building

- In the unlikely event a landlord closes your building, your recourse is subject to the lease and the general law.
- It's possible you could claim Access to the Premises and Interruption of Services, but both are unlikely if the building was closed for public safety.
- Enforcing a landlord default provision is unlikely to result in immediate relief because most agreements include the landlord's "right to cure" within 30 days.

Building Shut Down (Directed by Government)

- If the building shuts on government orders, the landlord is not at fault and you may have no recourse against them.

Requesting Rent Relief

Requesting Rent Relief

Your advisor will help you with the process, but here's what you can do to prepare.

- Obtain the most recent Rent Invoice and 2020 Operating Expense Estimate (if available)
- Be prepared to quantify the reduction in revenue you are experiencing as a result of the pandemic
- List all other measures being taken to reduce controllable costs such as reductions in staff and employee compensation
- Detail all other forms of relief you are seeking such as stimulus packages from the federal or state governments
- Provide year-to-date financials and the past two years' financial statements
- If the premises is not being occupied, request abatement of parking, utility or janitorial charges

Leases In Process and Rent Management

Lease Negotiations In Process

There are potential risks and opportunities for lease negotiations currently in process.

Potential Opportunities

- Delays may create leverage to renegotiate rental rates depending on the duration and severity of COVID-19 impact.
- New site opportunities may come onto the market due to reduced market demand. However, the timeline for new opportunities to appear on the market is difficult to predict.

Potential Risk

- Significant stalls in lease execution approvals within your own organization could result in losing sites in tight markets to other prospective tenants.

Lease Renewals In Process



Renewal Delays

We recommend delays in lease renewals only be considered if landlords are open to providing extension on lease option notice dates.

While 30- to 90-day delays in negotiations may create leverage to renegotiate rental rates, this potential benefit is outweighed by the risk of allowing contractual renewal rights to lapse.

Lease Administration & Rent Management

Accounts Receivable

A tracking mechanism should be implemented to reconcile subtenant rent invoices to subtenant concessions extended during the crisis.

Landlord and Tenant Mail Correspondence

If your employees are working from home, you must have a process in place for checking the mail. If possible, arrange for the landlord to communicate with you via email to ensure no important notices are overlooked.

Formal Landlord Notice

Review all leases to ensure proper notice is delivered to Corporate Real Estate or Legal and not to the premises – this is common in international locations or in locations where sites are closed, or employees are working from home.

cresa 

Think beyond space.