

THE LAST WORD

HOW COMMERCIAL PROS ARE NAVIGATING CORONAVIRUS



Commercial real estate professionals are simultaneously adjusting to extreme changes wrought by the coronavirus and guiding their clients into the future.

Four professionals representing various commercial sectors shared their insights during a “Next Up: Insights for Commercial Executives” webinar conducted April 15 by the National Association of REALTORS®.

MEET THE PANELISTS



Mark Duclos, CRE, SIOR, president of Sentry Commercial, Hartford, Conn., and 2020 president of the Society of Industrial and Office REALTORS®



Mike Schoonover, ALC, principal managing broker of John L. Scott Inc. Real Estate, Federal Way, Wash., and 2020 chair of NAR’s Commercial Committee



Cynthia Shelton, CCIM, CRE, managing director of investments and capital markets at LandQwest Commercial, Orlando, Fla.



Chip Watts, CCIM, CPM, president of Watts Realty Co. Inc., Birmingham, Ala., and 2020 president of the Institute of Real Estate Management

WHAT’S HAPPENING WITH LANDLORDS, TENANTS, AND LENDERS?

Cynthia Shelton: Tenants are asking to move rent to the back end of the lease or for three or four months of free rent. Many lenders are offering forbearance. They’ll do interest-only or free months, but they want details. Landlords can send a form to tenants asking for additional information to present to their lender (see “Assessing Tenant Need,” page 23). I would advise landlords and their representatives to communicate, communicate, communicate with tenants, lenders, and attorneys sending default letters.

Chip Watts: Property managers are caught between owners who have mortgages that have to be paid and tenants who are trying to not pay rent or wanting a rent abatement or deferral. We’re trying to find a good in-between spot. One of our clients owns and is a majority tenant in a medical office building that’s shut down because elective surgeries can’t be performed. He asked his mortgage company for forbearance, but they’ve said absolutely not. So we’ll go to the guarantor. We also have mom-and-pops trying to stay in business. Some have paid rent because they know they’re on the hook, while others have walked away. It depends on what clients have on their mortgages.

Mark Duclos: I’m on the occupier side of industrial, so we have less of a relationship with lenders. Our clients who are owners are getting relief when they need it from their lenders, and a lot depends on what type of lender you have. Most of our clients’ success is coming from local or regional lenders where they have long-term relationships and where the local lender has the flexibility to give relief. Success with larger banks, life companies, CMBS loans, and so on appears to be less consistent and more complex, either because of the size of the institution and lack of relationship with decision makers or the structure of the debt.

We see significant winners and losers. For instance, an aerospace company is in a weaker position on the com-

mercial side of the business than the military side. E-commerce projects are going forward. Certain tenants are doing great while others are truly in pain. Astute landlords know their tenants and tenant situations and work with them one-on-one.

WHAT CLIENT CONCERNS AND POTENTIAL CHANGES ARE YOU SEEING?

Mike Schoonover: Our big worries are what's going to happen to property values. Good quality agricultural land is holding value, and people are making offers on it. But what will the value be if our farmers lose their crops? Most of this land is financed, and farmers pay their mortgage or money owed annually after the harvest.

We have a lot of commercial properties that are on land leases and pay annually. A client with convenience stores on land leases is making annual payments but now isn't making as much money as before. Most of the leases come due in the fall, meaning we're looking at six months to a year from now compared to those facing the 30- to 60-day market. So, it's a longer-term unknown.

Mark Duclos: In industrial, we're working on active market studies, site studies, for clients looking at growth opportunities in food production and freezer-cooler space. There's a huge demand for freezer-cooler space: 75 million to 100 million square feet is projected in the next five years because of the change in buyer habits.

Clients are asking, "When we open our doors. What will my facility look like? Do I need to change my office space or manufacturing space? What about social distancing? How will lunchrooms and conference rooms need to change?"

Chip Watts: We have long- and short-term leases in place. Several well-known economists have said if we stay with social distancing and shelter in place through the end of May, 30% of small businesses could close. On the property management side, 70% of our deals are with mom-and-pop businesses. Because of that, we may see some shorter-term leases.

ASSESSING TENANT NEED

When tenants approach you seeking rent relief, use a rent assessment application to gain information about their situation, including what other assistance they've applied for or received. NAR's "Coronavirus Guidance: Commercial Real Estate" includes a sample form—provided by Sterling CRE Advisors—under the Transaction Guidance tab.

WHAT ARE CLIENTS WITH CAPITAL OR ACCESS TO LOANS LOOKING FOR?

Cynthia Shelton: Solid, long-term investments that will pay a 6% to 7% return. They're getting cash from lines of credit, banks they've dealt with for years, or family. They're putting together pools of money from family and using that as their equity piece or sometimes the whole piece and hoping to change that as the market shifts.

WHAT OTHER CHANGES DO YOU EXPECT, AND WHAT ADVICE ARE YOU GIVING?

Chip Watts: Common-area maintenance and supply line costs will increase, so we're letting landlords know to budget more for those areas and talking about whether we can pass the increase through to tenants.

Mike Schoonover: Our advice is to stay conservative. Again, land has the advantage of being longer term. We're looking at a seven- to eight-year timeline before the building is up and running, so our investors are looking at where they will be in three, five, or seven years.

Cynthia Shelton: I'd advise colleagues to use the National Association of REALTORS® and affiliates to get up to speed on adaptive reuse, particularly in the retail sector. Restaurant and ancillary business closures will continue and will be hard on retail. Restaurants will also have to revamp because of social distancing. Should food prices increase to compensate for that?

Mark Duclos: There are big questions to answer. What will employee flow look like in the manufacturing facility? Will people be separated more? Right now, if a worker at a cramped plant has coronavirus, the entire plant may have to be shut down, but in a spacious plant, only an area might need to be closed. Companies that operate in a city might decide they want to move to the suburbs. In making those decisions, construction, property management, design, and architecture will all come into play.

Stay on top of COVID-19-related developments and get timely advice from industry leaders at <https://www.nar.realtor/coronavirus-guidance-commercial-real-estate>.