RESEARCH SPOTLIGHT | Q2 2020

COVID-19'S IMPACT

TO COMMERCIAL REAL ESTATE

CUSHMAN & WAKEFIELD | THALHIMER

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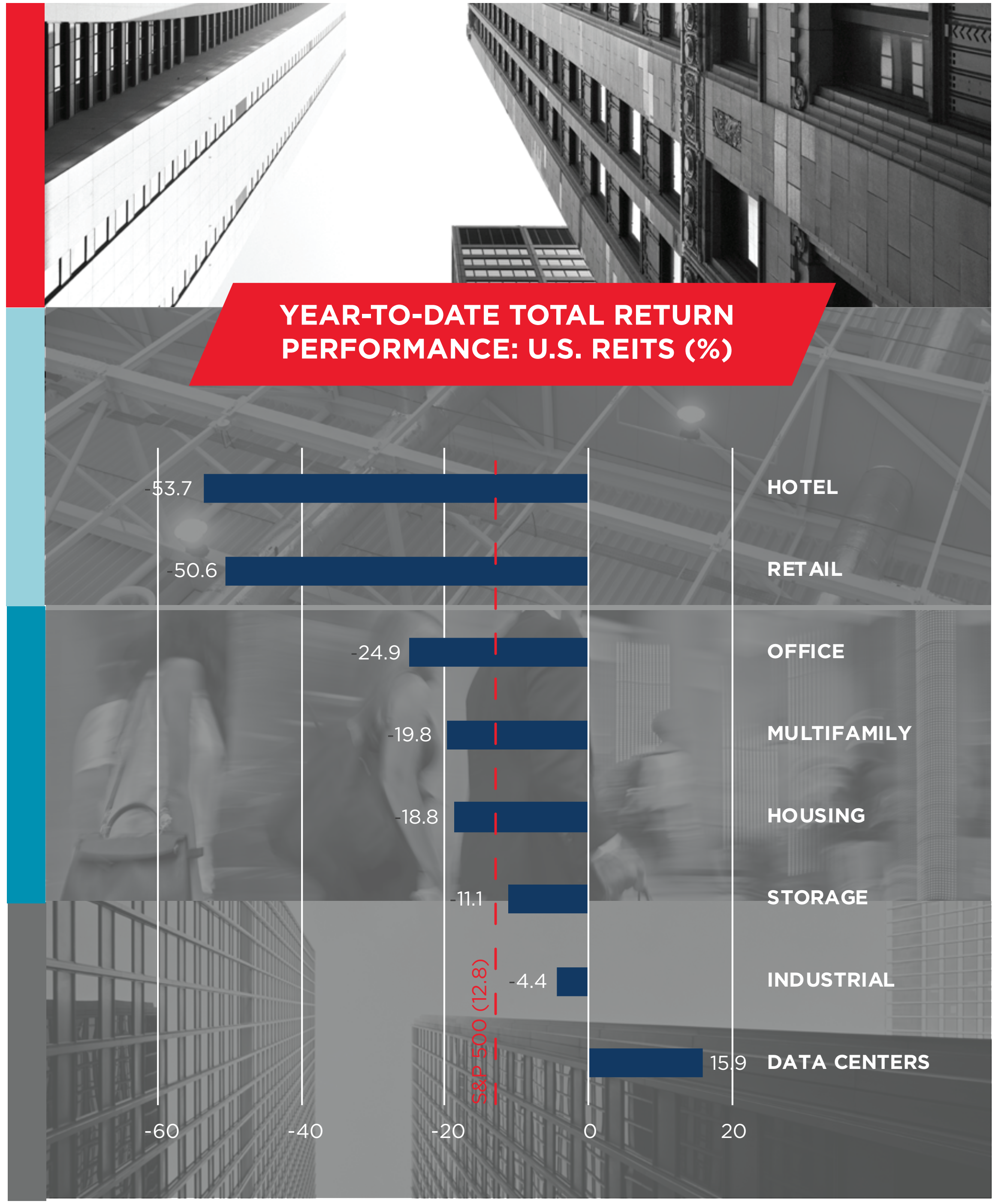
The pandemic is impacting each commercial real estate property type as businesses manage government mandated closures and shifts in consumer behavior. Early indicators show that the hotel and retail sectors have been impacted the most by these closures. Growth in eCommerce sales has limited the impact to Industrial properties, but uncertainty remains as global supply chains continue to evolve in response to the crisis. The increase in employees working from home has fueled an increase in data center usage, while companies reevaluate their office space needs as they prepare to return to the workplace. The return performance for each property type reflects these changes, as existing trends accelerate and new trends emerge in response to COVID-19.



RETAIL

There have been a variety of responses as tenants, landlords and lenders work together to mitigate the impact of mass retail closures. Many smaller tenants are relying on federal assistance to pay rents and may be waiting to receive funds. Paycheck Protection Program (PPP) loans are proving to be vital to provide the funds for overdue and upcoming rental payments. Some retailers that did not receive a payment in the first round of loans from the Small Business Administration (SBA) remain hopeful that they will receive funds during the second round of assistance. Large corporations not receiving federal assistance are also requesting rent deferrals. In one Richmond shopping center, a national mattress store and a quick-service restaurant were able to defer rent from May to July, while adding term to the end of the lease as a result. Landlords have started to put tenants in default to maintain their rights. Some lenders have extended mortgage relief to landlords, in one case a landlord was allowed to use reserve funds intended for capital expenditures to cover mortgage payments.

In a survey of 50 shopping centers in the Richmond region, approximately **70% of tenants requested rent relief for April, May and June.**

One regional health and wellness tenant in Hampton Roads received proposals from landlords for **over 80% of their abatement requests.** The remaining requests were denied by landlords stating that no abatement would be provided.

A national REIT that owns shopping centers in Richmond is working with their tenants across the board for **April-May rents – payments will be tacked on to the end of the lease or spread throughout 2021** – in order to avoid default and retain their existing tenant base.

IMPLICATIONS FOR THE **FUTURE OF RETAIL**

A greater focus on eCommerce, and now eGrocery, as demand soars. In March 2020, online grocery delivery services had doubled since August 2019 among consumers according to industry trade magazine *Grocery Dive.*

Delivery and curbside pickup are essential. The trend to buy-online, pickup-in-store will likely become even more prevalent as more retailers open their doors and find strategies to compete with eCommerce.

Online experience and omni-channel strategy can promote customer loyalty. A seamless customer experience through mobile ordering should be customer focused, promoting value and ease of ordering goods.

Necessity retail will be a bright spot. Despite a record decline in consumer spending, shifting consumer habits will provide a boon to grocery and service retailers in the near term.

Social distancing will temporarily halt the latest trends in physical retail. Experiential concepts, entertainment, food halls and fitness clubs are closed but opportunities remain for these concepts to adapt and better serve customers.

Co-tenancy clauses could lead to more ramifications. As businesses prepare to re-open, permanent store closures may add more uncertainty.

Force Majeure and insurance policies. Legal agreements will face more scrutiny as tenants prepare for the future.

Surge in tenant defaults. May rent collections expected to further decline from April as a result of the coronavirus.

Rental rates are experiencing some right-pricing. Landlords have been able to hold firm on rents with no dramatic changes to rates yet.

THE SAFE **EIGHT**

CUSHMAN & WAKEFIELD'S **RETAIL READINESS ESSENTIALS**

CONTROL THE ENVIRONMENT

Ensure that the customer's visit feels safe

CREATE THE EXPERIENCE

Ensure that the customer's journey is fulfilling

SUPPORT AND TRAIN THE TEAM

Ensure the employee feels safe

MANAGE THE INVENTORY

Ensure customer conversion with each visit

DEVELOP A TECH STRATEGY

Ensure technology delivers unique experiences

COMMUNICATE FOR CONFIDENCE

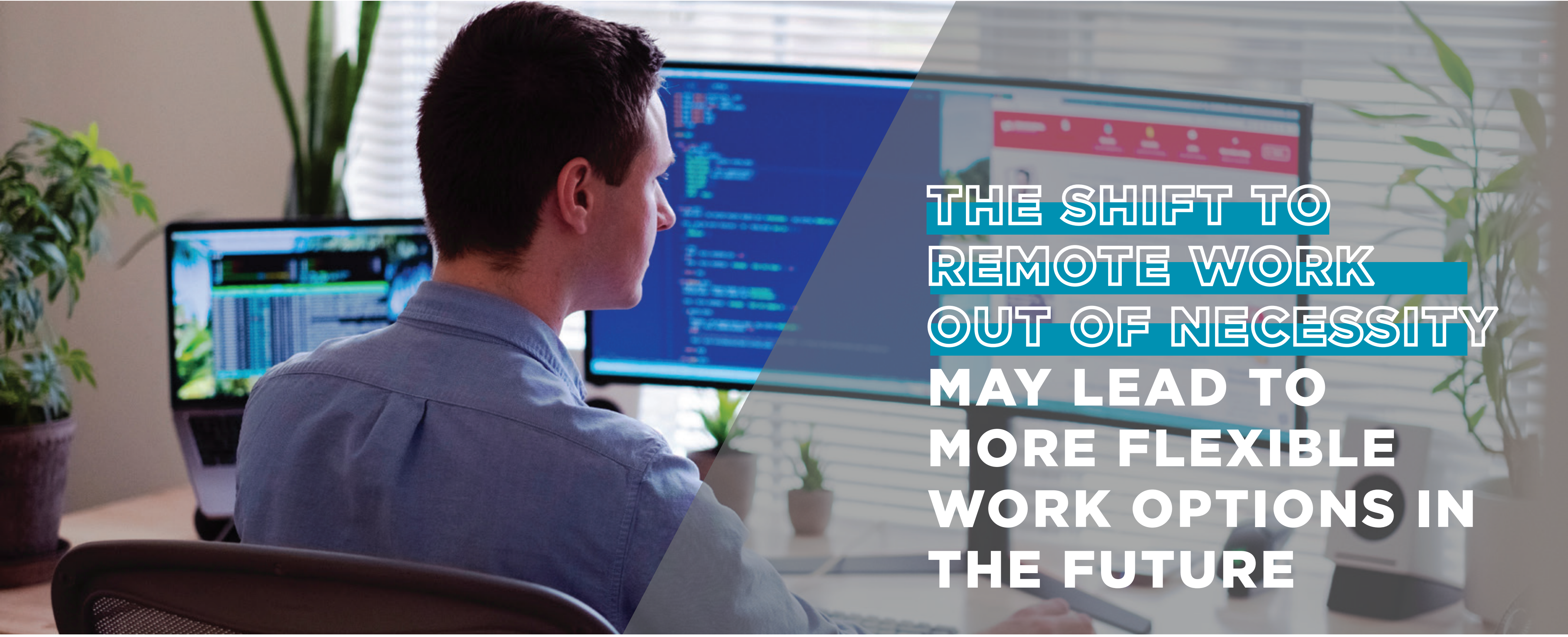
Ensure communication is transparent and authentic

BE FINANCIALLY FOCUSED

Ensure strategies deliver to the bottom line

CONTINUE TO COLLABORATE

Ensure insights are applied effectively



OFFICE

The shift to remote work out of necessity may lead to more flexible work options in the future. Companies are rethinking their physical footprint and work policies to accommodate a safe and clean workplace. Office layouts and design will be revisited and the trend of less square footage per employee may reverse. Remote work has proven that technology and connectivity are even more vital for flexibility and adaptability. Twitter was one of the first companies to announce that its work from home policy will remain a permanent policy, others may soon follow. Cloud based technology and a proven digital infrastructure is essential for flexible work options.

Office rent collections exceeded expectations. In Richmond, collections were fairly strong with limited rent relief for tenants. Tenants seeking rent reductions are renegotiating renewals for more free rent in return.

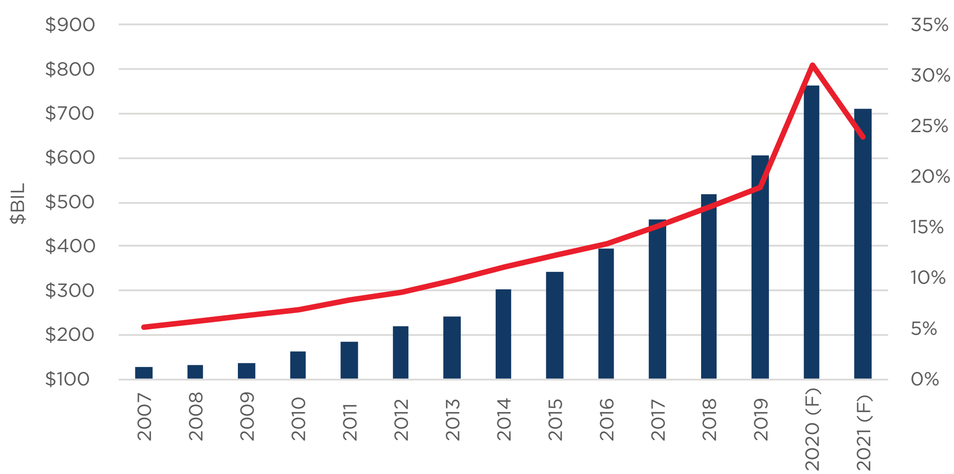
Tenants delaying action. Tenants that are not ready to commit to a renewal are waiting to get closer to the lease termination date before renewing.

Tenants seeking rent reductions. A common solution for rent relief requests include paying reduced rent for 3-4 months that will be paid back over a certain time period during the remainder of the lease.

INDUSTRIAL

The shift to eCommerce out of necessity may result in longer-lasting behavioral changes. eCommerce sales are expected to increase over 60% from 2019 to account for 31% of total retail sales in 2020. For every $1 billion of online sales, 1.2 million square feet in warehouse space is needed to fulfill those orders. Despite the demand for eCommerce, the overall slowdown in global trade will reduce port activity in 2020. The Port of Virginia consolidated its operations effective May 4 in response to market conditions. There is steady demand for cold storage and warehouse facilities to store food and medical supplies as well as surplus inventory.

ECOMMERCE SALES TRENDS



Overall in a survey of over 50+ industrial tenants in the Richmond region, less than 4% requested rent relief in April and one tenant was granted the request.

Rent relief requests came from distributors citing a sharp decline in demand for their products.

Demand from grocery and retail distributors, such as Lidl, Wal-Mart, and Amazon, is growing and continue to seek locations 100,000 + SF.

MULTIFAMILY

Rent collections outperformed expectations in April and May. PropTech has allowed operators to maintain tenant traffic with virtual leasing, marketing, property tours, and e-payment solutions. Federal support is helping buoy rent payments and occupancy, but Class B and C apartment properties are being impacted the most and could see a drop off when stimulus programs end.

Development activity continues for existing projects, but some new projects scheduled to break ground in the spring are delayed with ongoing market uncertainty.

May see a shift to more renters if homeownership is delayed or impacted for prospective home buyers.

Demand for senior living facilities may see a shift with retirees opting to stay at home or hire in-home care to avoid the potential spread of the virus in coliving environments.

Student housing will continue to be a concern for landlords over the next few months given the uncertainty of an on-campus fall semester.

WHAT COULD BE

LONG LASTING?

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1. **Workplace**
   Policies around work life, office layouts, and cleaning habits

2. **Technology**
   To make life more touchless and flexible will lead to quicker adoption of cloud computing and new technologies

3. **Wellness**
   Air quality in a building, technology to measure employee's temperature, and a greater focus on overall employee health

4. **Work From Home**
   Change in perception – many industries with no experience are learning how to work remotely and the overall frequency of remote work may increase

5. **CRE Portfolios**
   Companies will look to identify ways to reduce footprint; exploring primary office space, co-locations, flex, and WFH

6. **Virtual Experiences**
   Greater comfort with virtual interactions; digital advances may become more common amenities and services in the workplace

RECOVERY

READINESS

RECOVERY
READINESS

Over the next several weeks and months, as areas stabilize from the COVID-19 pandemic and stay-at-home restrictions are lifted, organizations will begin to bring workers back into the physical workplace.

The migration of a furloughed and Work From Home (WFH) workforce back to places of business will look different for every organization. The mix of returning employees will vary, and in some cases, a segment of the workforce may continue to work remotely. One thing is clear, however—the management of the process is without precedent.

SIX READINESS ESSENTIAL

1 **Prepare the building:** cleaning plans, pre-return inspections, HVAC & Mechanical checks

2 **Prepare the Workforce:** mitigating anxiety, policies for deciding who returns, employee communications

3 **Control Access:** protocols for safety and health checks, building reception, shipping and receiving, elevators, visitor policies

4 **Create a Social Distancing Plan:** decreasing density, schedule management, office traffic patterns

5 **Reduce Touch Points and Increase Cleaning:** open doors, clean desk policy, food plan, cleaning common areas

6 **Communicate for Confidence:** recognize the fear in returning, communicate transparently, listen and survey regularly

More detailed information on how to prepare for getting back to work can be found in our Recovery Readiness Guide

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