COVID-19 and commercial rent collections: A look at the data from April - by Chuck McDowell

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When it comes to rent payments, how is the commercial sector faring in comparison to the residential sector? My colleagues and I have been busy gathering this data, and the differences are striking. According to the NMHC Rent Payment Tracker, which includes statistics from MRI, 91.5% of professionally managed apartment households in the U.S. made full or partial rent payments (as of April 26th). Contrast this with the data we compiled from 900 commercial and retail users of our property management software, most of whom are based in the U.S. Our data showed that within this pool, only 73% of commercial tenants paid their April base rent.

Below are more details on our commercial findings:

Retail is the biggest pressure point – only 56% of retail tenants paid their base rent during April. That's an improvement over the mid-month figure of 48%, but a long way from the March total of approximately 91%. If we needed any more evidence that retail is suffering, we have it.

81% of office and other commercial tenants paid their base rent in April, which is significantly higher than the retail percentage and a decent jump from the mid-month percentage of 70%, but significantly lower than the March percentage for office/other commercial, which was approximately 92%.

Response from landlords

Yes, the findings are disheartening. But the situation has inspired a new level of cooperation and communication between landlords and tenants. Property managers across all sectors are evaluating alternative methods to address the gaps in payments. We're seeing creativity and accommodations across the board.

For example, my colleague Abe Somani, who oversees MRI's AI-powered Lease Intelligence solution, notes that landlords and tenants are negotiating a range of rent relief agreements. Among the U.S. landlords who use MRI Lease Intelligence, examples include:

Allowing non-payment for 3-4 months and spreading out the accumulated balance over the remaining life of the lease.

Allowing non-payment for 3-4 months and adding the accumulated balance as a bullet payment at the end of the lease (last month of occupancy).

Allowing non-payment for 3-4 months and extending the lease by another 12 to 60 months at a rate that is higher than the usual rent.

Allowing a 50% reduction in rent for six months and spreading out the remaining 50% across future payments after the six months and attaching it to last month of occupancy.

What's next

At MRI, we anticipate increased communication and negotiation between landlords and tenants. This is why we added new features to our commercial property management solution to enable deferred payment agreements in which balances due are spread over future periods. Flexible proptech solutions give organizations the ability to adapt more quickly and operate with more agility as we face the continued uncertainty of COVID-19.

The data on May payments will be telling. If businesses receive funding through the Paycheck Protection Program or other emergency loans, they should be better equipped to pay rent. And as states allow retailers to reopen, revenue-generation can restart.

Whatever happens in the short-term, there's no doubt that the traditional office and retail models will shift in the long-term. Companies are already hinting at moving away from high-density offices and crowded co-working facilities. They will likely allow more teleworking, which would–in turn–reduce their space requirements. Customers are likely to continue relying on e-commerce rather than in-store visits, at least for the immediate future. Landlords may be more inclined to consider pop-ups in their retail spaces.

In the short-term, my team will continue to track the data on commercial rent payments, starting with a mid-May update and another end-of-month wrap-up in early June. And the NMHC partnership is going to issue new data on residential payments on May 8th and periodically over the upcoming weeks. Future developments in both the commercial and residential sectors may come down to basic considerations of wants versus needs. People need shelter. Many businesses don't necessarily need office space. But another segment of commercial is retail, and retailers that can't support sales with e-commerce need an in-store presence. Therefore, we expect rent to remain a priority for residential tenants and bricks & mortar retailers – if they can afford to pay. It's hard to predict exactly what will take place, but the forthcoming comparisons of data on sectors and sub-sectors should be enlightening.

In the interim, I invite you to check out MRI Software's COVID-19 resources, where you can find more information and insights from us and from our partners. We have faith in the future of commercial real estate, and we will continue to provide tools to make that future a bright one.

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