NATIONAL REAL ESTATE INVESTOR

CORONAVIRUS - COVID 19

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Liz Wolf | May 20, 2020

Estimates range from declines of 8.5 percent to 13.0 percent through 2020.

Even more turmoil lies ahead for the U.S. retail sector as effective retail rents are projected to plunge 11.00 percent in 2020 DFFRUGLQJ WR 0RRG\¶V $QDO\WL market forecast.

This drop would be nearly twice the decline in retail rents that occurred following the Great Recession of 2008. It will also make retail the hardest-hit commercial real estate VHFWRU 0RRG\¶V $QDO\WLFV SRLQWHG RXW

%DUEDUD %\UQH 'HQKDP 0RRG\¶V $QDO\WLFV 5(,6 VHQLRU thought she would see such steep retail rent declines.

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The retail sector, already pressured by the rise of e-commerce before the COVID-19 crisis, is now burdened with even more wide-scale store shutterings.

³6WRUH FORVXUHV KDYH PDGH LW GLIILFXOW IRU UHWDLO \ impacted landlords. It is not yet clear how effective government support will be in this VHFWRU ´ VDLG Victor Calanog, head RI FRPPHUFLDO UHDO HVWDWH HFRQRP Analytics, in a prepared statement.

Permanent store closures could explode in 2020, with market research firm Coresight Research projecting more than 15,000 of them.

The latest retail bankruptcy victims include J.C Penney, Neiman Marcus and J.Crew J. Crew ² and these are likely the first of many defaults and retail closures that analysts anticipate in 2020.

As a result, national retail vacancies are expected to rise past historic highs.

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pays for rent relief, the future is bleak fo U UHWDLO SURSHUW\ RZQHUV wrote Callahan, in a report
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Retailers were already shuttering stores pre-COVID-19, and when big-box anchors and department stores close, that impacts foot traffic and trickl es down to other mall
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To make matters worse, U.S. retail sales plummeted a record 16.4 percent from March to April ² far greater than the 12.3 percent drop anticipated.

Other firms weigh in

Commercial real estate services firm CBRE forecasts an average rent decline of 8.5 percent for neighborhood centers, community centers and strip centers through the remainder of 2020. 7KDW¶V FRPSDUHG ZLWK D SHUFHQW GURS L
Recession, says Jing Ren, an economist with CBRE Econometric Advisors.

Many retailers are having a tough time paying rent and are seeking rental relief. Rent often came in late in April, CBRE reported. Payment rates ranged from 10 percent to 20 percent of total amount owed for malls and outlet centers, which were largely closed under COVID-19 restrictions. While grocery-anchored shopping centers with more non-essential retailers fared better, they still onl y produced 55 percent to 80 percent of their normal rent payments.

Rent collection at shopping centers so far in May has been better than anticipated, especially in states that have begun reopening, CBRE noted. Most of the rent negotiations during forced closures have been for deferrals in exchange for lease term extensions. However, some landlords have considered rent abatement for smaller mom-and-pop tenants, CBRE reported.

Recovery for the retail sector could take 36 months, according to Ren. Recoveries will also vary by market. She says cities like Miami and Las Vegas, which rely heavily on tourism, will be hit especially hard.

Meanwhile, research firm the CoStar Group is forecasting annual retail rents across the board will decline by 13.0 percent in 2020. The impact will likely be the worst in the JHQHUDO UHWDLO FDWHJRU\ GRZQ E\ SHUFHQW DQG W anchored shopping center category (down by 12.6 percent).

Those are significant drops from what was being recorded in the months prior to the pandemic.

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retail was temporarily closed across the country for a large portion of time, and as a

UHVXOW UHWDLO UHQW JURZWK LV VXUHO\ JRLQJ WR EH L he says.

The decline in retail rent levels is going to be significantly deeper than during the Great Recession, when CoStar tracked rents falling by around 4.0 to 5.0 percent annually, Trantham says.

In addition, no center type is immune to the effects that the lockdown will have .

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tenants that were deemed non-HVVHQWLDO DQG ZHUH FORVHG IRU D ZKL

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But while neighborhood and community centers have benefitted somewhat from having their grocery and other essential stores remain open, they still have a good portion of their tenants that were shut down and are going to be negatively impacted, Trantham adds.

Rent collection was down in April

U.S. retail landlords collect roughly $20 billion in rent in a typical month, Trantham notes.

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than others.

³2XU JHQHUDO WKRXJKW is that markets that are more exposed to at-risk industries, which would be leisure and hospitably, retail trade and energy, are going to be hit particularly KDUG E\ WKLV GRZQWXUQ ´ KH VD\V ³7KHVH DUH PDUNHWV
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Also, those markets with larger pipelines of new retail construction will feel the strain. Nationally, new retail construction has been muted in recent years. But markets in the southern U.S. have generally been experiencing stronger retail supply growth.

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