

Retail Rent Drop

REAL ESTATE: Shopping center owners face lower income and rising costs.

Thousand Oaks: NewMark Merrill Cos.' Janss Marketplace.



PHOTO BY THOMAS WASPER

By **MICHAEL AUSHENKER** Staff Reporter

Even prior to the coronavirus crisis, retail centers faced monumental challenges from Amazon.com Inc.-led e-commerce. Now, with the pandemic triggering an unprecedented shutdown of business, many retail tenants — from high-profile national chains to independent business owners — are requesting deferments or abatements on rent, putting landlords in a serious bind.

Federal and state emergency financial assistance, including the CARES Act and Payment Protection Program, favor the tenant. At press time, Senate Bill 939 in California's Legislature was headed for a May 22 hearing. The proposed bill would allow a commercial tenant struggling because of state or city shelter-in-place orders to negotiate in good faith with its landlord and, if no reasonable resolution is arrived at, terminate its lease.

While both tenants and large financial institutions have received money, the typical retail landlord is caught in the middle with no financial help.



Sigal

Owner **Simon Shamoun**, who operates a Tarzana retail center at 18851 Ventura Blvd., is one of the landlords dealing with that reality.

"Your banking commitments are still there," Shamoun said. "Your property tax commitments are still there. Maintenance commitments are still there.

All of your expenses are still there and are not going away."

"We have mortgages, we have loans like everyone else," NewMark Merrill Cos. Chief Executive **Sandy Sigal** told the Business Journal. "The lender is a life insurance company that has to pay off annuities or pension funds."

Sigal, whose Woodland Hills property management firm runs retail centers in three states, pointed to "the misalignment between renter and landlord, but not a word for the building owner who scraped together their life savings

to make a building and keep what's left over to survive. So little of what we collect in rent goes into an investor's pocket."

If anything, Sigal noted, between increases in security staff and extra cleaning crews, NewMark's expenses will climb during the coming months. He has already spent more than \$100,000 on hand sanitizer and masks for employees.

"I need to hire people to daily wipe down doorknobs and benches," Sigal said.

Shamoun believes that state and city politicians in California are out of touch and missing half of the equation.

"The politicians are not paying attention to what is happening to the people," said Shamoun, who has not seen anything available on the federal or state level to assist the retail landlord. "I'm not aware if there is another program. We are always looked at as greedy rich people."

Todd Nathanson is founder of **Illi Commercial** in Encino, which manages over 200 commercial properties. "We are in touch will all of our tenants individually which we have never done before," he said. "Our rent collection has been better than expected. We have dealt with so many issues. We also put together a separate website to help small businesses; it covers a lot of questions and concerns that small business tenants have been expressing."

Brandon Michaels, who specializes in retail transactions for Calabasas-based brokerage **Marcus & Millichap Inc.**, said that across the board, landlords are dealing with hardships in rent collecting.

"Every one of my clients is feeling the pain of this; there's no one that's not affected," he told the Business Journal, adding that he has heard from landlords that rent collection has been "a 50 percent clip for April; May will trend worse."

Given how early in the lockdown period April was, "we haven't even started to see this on the retail collection side," Michaels said. "The PPP money is going to dry up at a certain point and that will further impact tenants to pay rent. From mom-and-pops to nationals, every tenant is looking for some sort of concession. For the most part, landlords don't have a lot of leverage and are acquiescing because there's no new influx of new tenants to come in if existing tenants vacate."

Landlords have been more stringent with the corporate tenants, Michaels added, but he predicted "a significant increase of vacancy rates and a reset of the (retail) rental market."

Communication is crucial

NewMark Merrill owns 63 shopping centers in three states, including the West Hills Shopping Center, Westridge Shopping Center in Canoga Park, Topanga Willows in University Village in Woodland Hills, Agoura Meadows in Agoura.

"The Valley is a smaller market and a very tightly knit market," NewMark's Sigal said. "We've seen incredible loyalty from our neighbors."

In the current crisis, Sigal has noted differences between local and national tenants, but communication is key for all.



Tarzana: Simon Shamoun's property at 18851 Ventura Blvd.

PHOTO BY THOMAS WASPER

"We made it our mission to contact by phone, not email, our 2,000 tenants," Sigal said. "It changes the entire nature of the dialogue."

However, "the problem with the big tenants is different," Sigal noted. "They can access capital markets, Wall Street, unsecured lending facilities. They have more bang."

One area where some landlords have gotten some indirect assistance is through the PPP, designed to prop up businesses temporarily. Sigal said NewMark is working to help its tenants with rent deferrals and seeking PPP funding. His company has hired consultants and set up webinars to assist in the process.

Soft reopening

With the May 15 move to soft re-open another wave of non-essential businesses, Michaels doubts there will be much upside when restaurants' capacity will be cut in half and stores will be making a fraction of the revenue previous to the pandemic. The longer this shutdown goes on, the more catastrophic the impact will be, he added, and a full return to retail is presently a big question mark.

"Even as things start to slowly open, it remains to be seen who feels comfortable enough to go out," he said. "There's no way around that this will change the face of retail."

Shamoun agreed with Michaels that landlords are caught between a rock and a hard place.

"You hope (rent) is deferred but all they want is to abate," he said. "It's a hairy situation."

The problem with rent deferral, as Shamoun sees it, is that if the tenant goes out of business, the landlord will never see any money. That is proving to be a very real fear. In mid-May, Westlake Village-based national chain Pizza-Rev, which had a heavy regional presence with restaurants in Burbank, Northridge, Thousand Oaks, Camarillo, Ventura and Santa Barbara — announced that it was permanently shuttering all of its outlets.

"The banks are not going to give me a break," Shamoun said. "The state of California or city with the property taxes are not going to give me a break. What happens to us?"