

What to do about my RENT?

20 Years
Experience in
Commercial Real Estate

Within commercial real estate we are expecting some upheaval due to Government imposed quarantines on many businesses and sectors of the economy. Because of that, I am urging clients to communicate with your landlord (or tenants) and lenders (if applicable) about expectations and request flexibility – **it is better to have that conversation now.**

Some local jurisdictions (notably Sacramento) and the State of Ca (has introduced a bill) are imposing a moratorium/freeze on commercial evictions - it only prolongs the pain or issue, as the rent and costs are still owed under the lease.

With fresh perspective from the crash of 2008, most landlords will likely seek to work with tenants to retain them. There are several options you can discuss:

Rent Reduction – Most straight forward is an addendum to reduce rent, either for a short term period or the remainder of the lease. If in retail, you might consider a percentage rent, that will grow when your sales grow.

Rent Deferral – A Landlord could defer or waive a portion or rent but would require it to be repaid later or at the end of the lease term either in a lump sum or spread over later years in the lease term.

Rent Abatement – A Landlord if they have the ability, could agree to forgive a certain amount of rent, or past due rent for a short period of time. Remember if you pay NNN costs or operating expenses with your lease, those will likely still be owed.

Application of Deposit - If you have a deposit with your Landlord, they may agree to apply a portion of that against any current rent or operating cost obligations. The larger the deposit the more flexibility here. You may or may not need to replenish the Deposit funds later.

Subletting – Landlord's may ease restrictions on your ability to sublet, bringing in a new tenant into a portion of your space that would help you pay your rent.

Loan Conversion – Say you can't pay the next 3 months rent and costs. Landlord could essentially "Loan" you those costs, by letting you skip them and creating a promissory note that is cross-defaulted with the lease that allows you to pay that over time, perhaps a year or two on top of your future rent obligations.

Be Prepared: Helping clients in this process we review their lease and conditions, their payment history, how long they have been a tenant, how big of a tenant they are within the building or the complex. Know your business performance last year, currently and how you hope to rebound from this. Tell your Landlord specifically how your business is being impacted by the COVID-19 pandemic and be prepared with data to have an open conversation to identify a solution or combination of solutions.

Talk to your local Chamber and other small business and trade organizations to know what local, State and Federal relief options, grants and loans might be available to help you. Let your landlord know what you are doing in this regard as well. People want to help those that help themselves.

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