

TAKING ON

THE CHALLENGE OF COVID-19

BY STEVE LEWIS | SPONSORED BY SIOR FOUNDATION



To paraphrase a line from the musical *Hamilton*, the world of CRE—so foundationally based on personal relationships—has been “turned upside down” by the Coronavirus. With in-person contacts varying from minimal to not at all, SIORs have been faced with finding alternate ways to maintain communications with their clients and colleagues. But as it has always been, they are up to the challenge.

Still, no one is pretending that things are fine and dandy. “To borrow on a quote from Churchill, ‘I’ve never worked so hard for so many people for so little money, as I have now,’” says David Klein, SIOR, industrial and office specialist and senior vice president at Transwestern in San Francisco. “It’s a difficult time for everybody.” In fact, he continues, “It [feels like] science fiction—except you can’t see the Martian; it’s the virus.”

“I work for a development company, and almost every project is on hold, except for health systems,” adds Jeffrey

Deitrick, SIOR, executive vice president and broker of record for Oxford Realty Services, Inc., in Pittsburgh. “We’ve closed our offices, and everybody’s adjusting to working at home.”

Daniel Levison, principal and founder of CommissionTrac in Dunwoody, Ga., says he sees very little activity. “I still do tenant representation with a handful of clients, but the little I am doing is in industrial,” he says. “There’s virtually nothing with retail and office folks.”

“It’s been interesting,” understates Chip Hurley, SIOR, associate broker and vice president with Signature Associates in Grand Rapids, Mich. “We’ve had ‘zero’ inventory the last couple of years; the economy was humming along, and it’s all come to a screeching halt...This has never happened to anybody in their life. It’s uncharted territory; where do we go from here?”

All Areas Feel the Pain

Which sectors are feeling the greatest impact from COVID? The answer from most SIORs is virtually everyone—with the possible exception of industrial.

“Everything is absolutely on hold,” says Hurley. “Retail is getting hammered. Michigan has a very high percentage of automotive and they’re shut down; suppliers are shut down. All real estate types are in a ‘wait and see’ attitude.”

“Restaurants are starting to do deliveries to keep people on the payroll,” adds Levison. “The coworking business is dead in the water.”

“Quite simply, everything is shut down from the development and management standpoint,” Deitrick declares. “Oxford does development, construction, and property management and we’re affected across all lines. We haven’t seen it so much in the office sector yet, but I do suspect it will come. Retailers are looking for rent relief. We continue to talk to our lenders, and we suspect there will be some relief on that side; to the extent they give relief, we’re willing to work together with retailers and office tenants. It’s a shared life.”

In industrial, he continues, more of those businesses are considered “exempt” from closure because they are deemed essential. “But I think that will be eroding as time goes on, because the labor force in industrial facilities is getting sick,” he adds. “For example, in some Amazon centers you had people show up ill with COVID-19.” More recently, a Smithfield meat factory in Sioux Falls, S.D., was forced to close its doors as several hundred employees came down with the virus.

Legal considerations concerning leases, loans, and even in-person meetings have also come to the fore, says Louis Archambault, a board-certified real estate expert transaction attorney with

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Saul Ewing Arnstein & Lehr LLP, in Miami. When it comes to lease modifications and loan modifications, for example, he says he is keeping up with advisories his firm receives and is relaying them to SIOR. He has also shared, for example, an outline on what to keep in line, how to approach negotiations, finance options involving the SBA's new Payroll Protection Program, etc.

He also held a teleconference call with 161 contacts to discuss what specific provisions to keep in mind, such as Force Majeure, business interruption, lease modification concerns, and loan modification concerns. For example, he notes, “If you start to do lease amendments, you have to get lender approval.” That phone conference has been loaded onto his firm's website¹ and has been posted on SIOR forums.

A Q&A portion of the teleconference, he adds, covered some unique and interesting hypotheticals, such as what to do if a tenant tests positive to COVID-19 (i.e., should they be quarantined? Must you clean the space?), and even what to do if you want to meet a broker personally. The laws are different for each state, he points out, but adds, “You're better off trying to do it virtually.”

The restoration clause is another important issue, notes Klein. “It basically

says that at the end of a lease the tenant will vacate, remove their stuff, and deliver the space clean,” he notes. “Now, with COVID and the lasting life expectancy of the virus on surfaces, we have created a spec based on CDC cleaning standards; it requires tenants to decommission the spaces being returned. A landlord does not want to take over space that has been infected with a virus. As part of the restoration obligation, it's now akin to what a life science tenant does when they turn back the lab; I see office landlords requiring tenants to decommission to a level of cleanliness that matches the CDC cleanliness standard. Whether it lasts beyond COVID, I don't know.”

His clients in retail, he adds, are having “an unmerciful time.” Many retail tenants, he notes, do not have the right business interruption insurance, nor do they have rent loss insurance. “They are flying without a net, which is tragic,” he bemoans. “What I've seen mostly is that a deferred amount of rent is added on to the back end of the lease.”

‘Virtual’ Solutions

And speaking of “virtual,” that seems to be the approach being taken by most firms and SIORs when it comes to working from home, as well as “meetings” with clients and prospects.

“Everything is virtual,” says Klein. “We're still conducting business, but we do it

much differently than we used to.” For example, he shares, he represents a large religious organization and leases out their educational properties. “We have schools that need to be rented for early fall,” he shares. “What I do is open the buildings, turn on all the lights, then go sit in our car. Prospective tenants get out of their car—we require they be gloved and masked—they tour on their own and take pictures. We've already provided them with plans. They leave the building, wave to us, and then we have a phone conversation from car to car. They ask questions, we answer, and we go our separate ways. Then we get out and lock up the building.” Klein says he has also started posting video clips to prospective tenants.

Fortunately, adds Dietrick, technology has advanced to a place where he has the ability to “virtually tour” with clients. “We did it yesterday with a group,” he says. “We met in GoToMeeting. We were able to virtually tour, and get reactions, so from a brokerage point of view we have the advantage of still being able to work.” It's never going to compare with being onsite, he concedes, but he has been able to push forward with some transactions. “Still, the velocity has slowed,” he says.

Beyond that, he adds, “The key challenge is finding a new way to work effectively and creatively if you're not used to working remotely. The brokerage industry is a little more adaptable than

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other business lines because you're always on the move. But some firms are not used to it."

"Thank goodness for technology," echoes Hurley. "We can remotely access everything we can at the office—we have access to all the files. And I can go in periodically to change backup tapes, get mail, and so forth. Staff definitely stays home."

Weekly meetings continue, albeit virtually. "For brokers doing deals, they talk on the phone like nothing happened," says Hurley. Still, he notes, while everyone is trying to keep things moving, "If you're in the middle of due diligence you can't get an inspection, or environmental consulting. Contractors, roofers, surveyors are dead in the water; that's the scary thing."

Keep Those Relationships

Regardless of the mode of communications, SIORs emphasize how critical it is in times like these to maintain those close relationships with clients—and to even make it personal when appropriate.

"Most of my reach-outs have been on a personal basis," says Dietrick. "You're not necessarily soliciting new business, but checking in, asking how they're doing." Inevitably, he says, the discussion does turn to business. "I just tell them we're

here, we're still working, and we'll help in any way we can," he shares.

"As this thing unfolds, everyone's concerned," Hurley states. "First and foremost are: is my family safe and do we have what we need, and how do we help our clients? We reach out to them, ask how they're doing, and we focus on the relationship." At the same time, he adds, he keeps clients up to date on transactions, says he understands how they are affected by the current situation, and that he hopes that after this delay in the economy there will be some great opportunities.

"We're absolutely reaching out to clients," says Levison. "I reach out to them and say I hope you're safe; let me know if I can be of any assistance."

"There's a range of reaction [among clients]," notes Klein. "Some people are

soldiering through while others are in complete disarray. We minister to their needs. These are relationships first, business transactions second. These are folks we're very attached to on more than just a business level. There's a lot of outreach just on the human level—which feels good, feels right."

'All in This Together'

Klein's comment rings true to many of those we spoke with; they will work with tenants or vendors when they can, as everyone tries their best to work through a situation with no clear end, at this point in writing.

"I anticipate that there will be a lot of slow payment issues, but if SIORs have a problem, we're all in this together,"

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says Archambault. “If [you] can give any kind of extension on payment or give a concession, go ahead and do it. If you as a business need a concession, be honest with the people you deal with and work it out as best you can—abatements, etc.”

“Utilize your expertise in working with clients and help them move through these uncharted waters,” Levison advises. “Help them creatively in new ways that did not present themselves before this hit us all; it’s too early into this thing.”

There will be another “bounce” to the crisis, he predicts, until we get a vaccine.

“Even when it comes back, how much pain and hit did you take?” he asks. “That will determine what you need to do to just survive. Some tenants’ leases will be rolling, and maybe they’ll move to less expensive space. What we do know is that we don’t want to repeat what we did in ’08; it took too long to bounce back. We’ve got to learn from that—and that’s a positive. I happily provide the relief, but I can’t provide every tenant in my building relief if my lender won’t give me any relief, so we take it on a case by case basis.”

His concern about fellow brokers is greater for those with less experience. “We used to take fees over the term; guys who’ve been doing that for a long time

make good money without getting out of bed. If you get a percentage, you may not get as much, but you’ll get something if the tenant gets relief. But a lot of young folks who’ve seen nothing but great times may have a very difficult time hanging in there.”

“We’re looking at the world through a tunnel,” Klein summarizes, turning his attention back to his clients. “We’re there to help them through thick and thin; it’s a marriage—for better or for worse. In situations like this we have to offer a calm mind and a warm heart. I enjoy doing that—and hopefully, it helps.” ▼

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