

7 Critical Steps to Take & Discuss with Your Commercial Landlord During the COVID-19 Crisis

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Commercial Real Estate

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Introduction

Thank you for being here. We appreciate your commitment to exploring the critical steps to take and discuss with your commercial landlord.

With the onset and continuation of COVID-19, tenants are confronting a host of issues, including how to make rent and potentially renegotiate fair, viable, and sustainable leases.

Today, we'll cover the 7 critical steps you must take and discuss with your landlord during the COVID-19 crisis; we'll also have a 15-minute Q&A at the end of the presentation.



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What is the legal community saying?

Karl J. Lott, partner at Holland & Knight, recently wrote an article entitled *Commercial Landlord Responses To Tenant Requests For Rent Relief During COVID-19 Pandemic* where he notes “Landlords' responses to their tenants' rent relief requests have varied depending on location, the type of tenancy and many other factors. But one common response has been to ask the tenants for more information that would support the tenants' claims that the requested rent relief is a result of the effects of COVID-19 on their businesses. The information that landlords are seeking generally includes some or all of the following:

- financial statements and other financial information for 2019 and year-to-date 2020
- projections of financials through the end of 2020
- a summary of governmental assistance that the tenants have applied for or intend to apply for
- some sort of narrative description of the impacts of the COVID-19 situation on the tenant's business
- a description of the tenant's plans and strategies for improving operations over the long term
- a summary of the rent relief requested and a proposed repayment plan”

7 Critical Steps to Take & Discuss with Your Commercial Landlord

Step 1: *Don't panic!*

- Rudyard Kipling was correct when he said, "If you can keep your head when all about you are losing theirs"...
- This is not the time to make panic driven decisions. As you study your business and contemplate how you make decisions, leverage the facts to make informed decisions.
- Don't be reluctant to seek thoughts and advice from people that are knowledgeable about tough decisions you are facing.
- Slow down when making important decisions.

Finish the step: Prepare to communicate calmly with your landlord about your business situation.

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Step 2: *Redouble your focus on customers*

- Retaining customers is always important, and in rough economic times, customer retention is even more important.
- Now is the time to refocus your efforts on providing the absolute best customer experience possible.
- If you are a franchisee, spend extra time on service training – it will be a valuable investment.
- If you are franchisor, make sure you are supporting your franchisees in every way possible; ensure your organization knows that supporting franchisees is "Job Number 1."



Finish the step: Be ready to share your efforts for retaining and attracting customers with your landlord.

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Step 3: Review your business model

- Every business is based on a model that includes the source and amount of revenue; investment requirements; operating procedures; and profit generation techniques.
- Your business model is based on certain assumptions and it's important to revisit those assumptions - as difficult as this might be.
- Look at your business model and understand how it will perform with lower revenue, changing investments, and revised operating procedures.
- Consider your cash flow as you respond to the new economic environment.

Finish the step: Prepare a short summary of your business model to share with your landlord.

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Step 4: *Review your business tactics*

- Generally, your business tactics seldom change. However, it's critical to revisit your overall approach given the massive changes in the market.
- If your business tactics have shown any signs of weakness, it's time for a thorough evaluation.
- Reviewing your business tactics, along with a review of your business model, can open your eyes to new opportunities.



Finish the step: Develop a list of your business tactics to discuss with your landlord.

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Step 5: Manage your cash - Cash is KING!

A short story...

- A restaurateur, who owns seven franchise restaurants, recently reviewed every expense item on the P & L statements. He didn't find any fat in the big numbers like food, labor, etc. But he found almost \$2K per store per month in unnecessary phone expenses.
- The restaurateur is now taking advantage of an AT&T deal and estimates he will save almost \$20K per year in his seven restaurants.
- To put this in perspective, the owner would have had to increase his sales by slightly over \$200K per year to achieve the same increase in free cash flow.

Finish the step: Formulate an overview of how you're managing your cash to share with your landlord.

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Step 6: Keep your bankers and investors updated

- Your bankers/investors have shown faith in you and you owe it to them to tell them what's going on in your business, even if the news is not good.
- Bankers and investors know the environment is tough, but they want two things from you.
 - First, they don't want any surprises.
 - Second, they want to know what you're doing to keep the business afloat until the economy recovers.
- Now is a good time to update your business and financial plans and use those as communications vehicles to build insight into your business.

Finish the step: Review your business and financial plans; be ready to share a bulleted or detailed list with your landlord.

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Step 7: Review your lease

- Your current leasing situation must be evaluated with a very honest and realistic approach.
- Your lease may not suit your current needs or space requirements; your rent may no longer be viable in this market.
- Talk with a trusted Commercial Real Estate advisor about your lease before you set up a meeting with your landlord.

Finish the step: Gather all the information you've prepared in the previous steps and schedule a meeting with your landlord to review your situation (as per your lease).



Recap:
7 Critical
Steps to Take
& Discuss
with Your
Commercial
Landlord

Step 1: *Don't panic!*

Step 2: *Redouble your focus on customers*

Step 3: *Review your business model*

Step 4: *Review your business tactics*

Step 5: *Manage your cash - Cash is KING!*

Step 6: *Keep your bankers and investors updated*

Step 7: *Review your lease*

Q & A

Thank you!

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