

LEASING CONDITIONS In a Pandemic Environment

July 2020

National Association of REALTORS®
Research Group
Research Group

The coronavirus pandemic has heavily hit the demand for commercial real estate: multifamily, office, retail, and hospitality/lodging. This report discusses the results from a survey about leasing conditions in the second quarter of 2020, capturing the critical period when almost all states implemented stay-at-home or shelter-in-place orders that ground business to a near halt, resulting in office, business, and recreational facilities closures and an unprecedented surge in unemployment.

The long-term effect on the demand for commercial space is still unraveling. This survey is intended to gather information on the impact of the pandemic on renters and landlords alike on key indicators such as rent payment received, rent payment options for renters, leasing volume, vacancy, rents, common area maintenance fees, lease term, and changes in the work place.

Towards this end, the National Association of REALTORS® partnered with the Institute of Real Estate Management in developing the survey and disseminating the survey to its members. The survey was sent to all members of the National Association of REALTORS® engaged primarily in commercial real estate. NAR members include the members of NAR's institutes/society, and council (Institute of Real Estate Management (IREM), CCIM Institute, Society of Industrial and Office REALTORS® (SIOR), REALTORS® Land Institute (RLI), and the Counselors of Real Estate® (CRE). Respondents who reported they are engaged in leasing or property management were asked about leasing conditions during the second quarter of 2020 pertaining to the properties they lease or manage.

This survey supports the research recommendation of the 2020 Commercial Real Estate Research Advisory Board chaired by Soozie Jones Walker and co-chaired by Dawn Aspaas to assess the impact of the coronavirus pandemic on commercial real estate across property sectors.

LEASING CONDITIONS

In a Pandemic Environment

July 2020

4 | Rent Payment Received

6 | Rent Payment Options

8 | Eviction

10 | Vacancy Rates

11 | Leasing Volume

12 | Effective Rent

13 | Common Area Maintenance Fees

14 | Lease Term and Changes in the Work Place

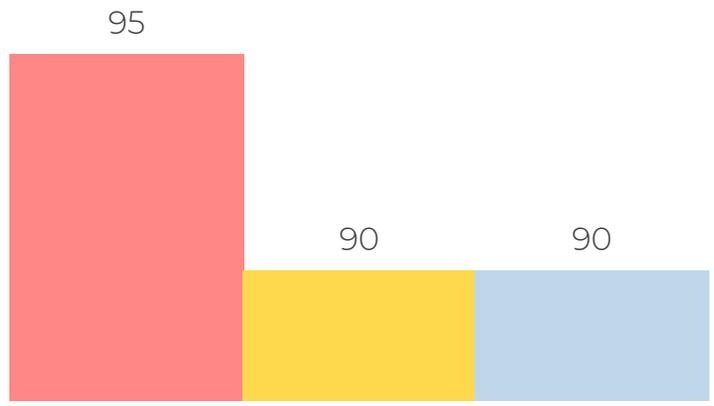
15 | Methodology

RENT PAYMENT RECEIVED: RESIDENTIAL

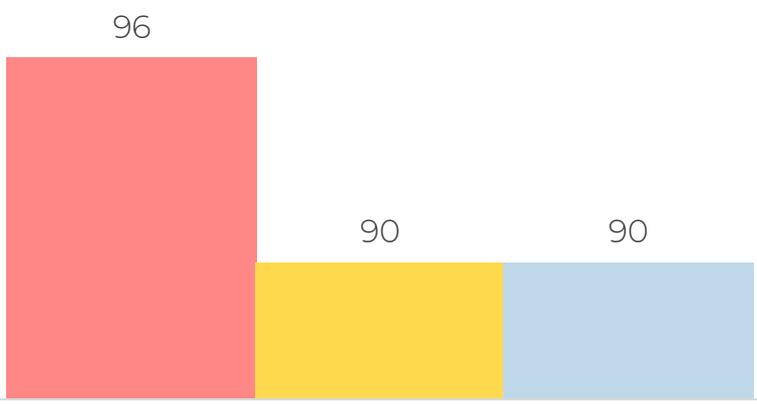
- 95% of rent due in 2020 Q2 was paid among tenants in single-family rentals while 90% of rent due was paid among tenants in apartment unit rentals.
- 96% of rent due in federally-assisted housing was collected, higher than the 90% rent payment rate in conventionally-financed apartments and public housing.

For each type of tenant, what percent of the rent due in the past quarter were you able to collect? Skip options if you do not have these types of tenants.

Median percent of rent due in 2020 Q2 that was collected



■ Single-family Rental ■ Apartment Class A ■ Apartment Class B/C



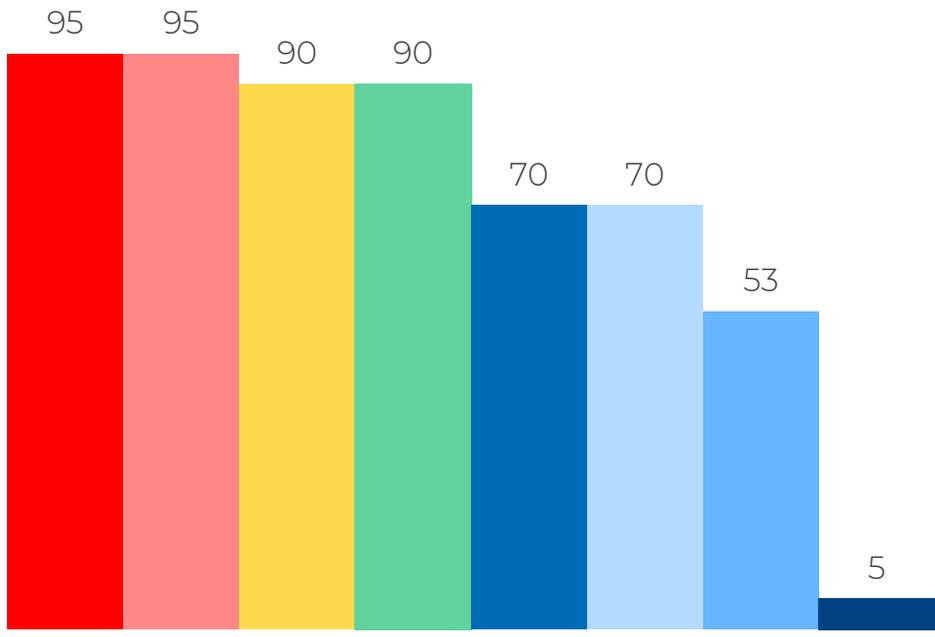
■ Federally-assisted housing
■ Conventionally-financed apartments
■ Public housing

RENT PAYMENT RECEIVED: NON-RESIDENTIAL

- 95% of rent due in 2020 Q2 was paid among tenants in office class A and industrial flex properties managed by the respondents, while 90% of rent due was collected from tenants in office class B buildings and industrial warehouses.
- 70% of rent due was paid among tenants in retail strip centers and free-standing retail stores, while only 53% of rent due was collected from retail malls.

For each type of tenant, what percent of the rent due in the past quarter were you able to collect? Skip options if you do not have these types of tenants.

Median percent of rent due in 2020 Q2 that was collected



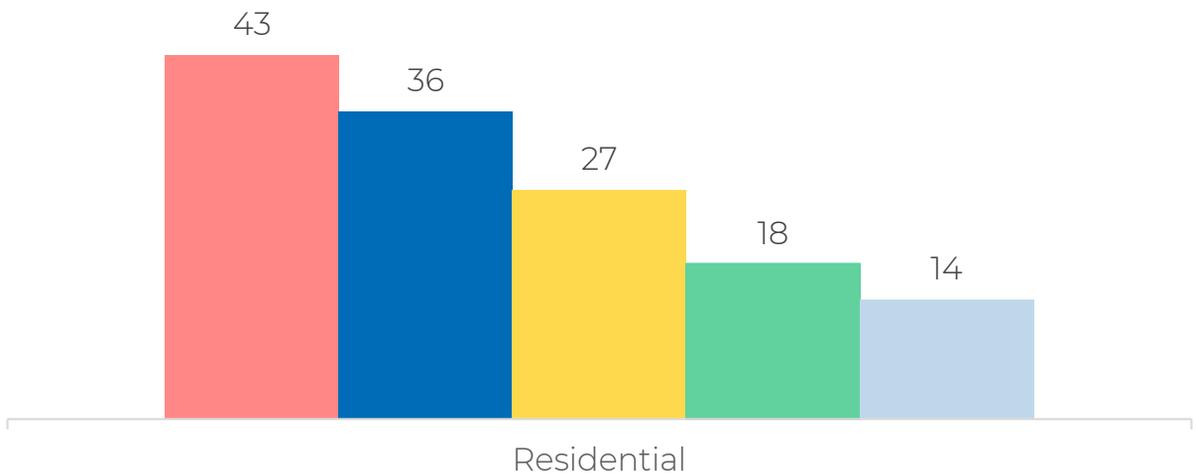
- Office Class A
- Office Class B/C
- Retail: Strip
- Retail: Mall
- Industrial: Flex Space
- Industrial: Warehouse
- Retail: Free standing
- Hotel

RENT PAYMENT OPTIONS: RESIDENTIAL

- 64% of respondents reported landlords offered rent payment options to residential tenants (36% did not offer any rent payment option).
- The most common form of assistance was allowing the tenant to pay the missed rent over several months (43% of respondents reported this).
- Rent payment options offered included rent abatement or rent reduction; frequent, smaller rent payments; and “other payment options” such as ‘no late fees or charges’, ‘use of the security deposit’, and “not increasing the rent when the lease is renewed.”

Among your residential tenants, what rent options are offered to assist tenants? Select all that apply.

Percent of respondents



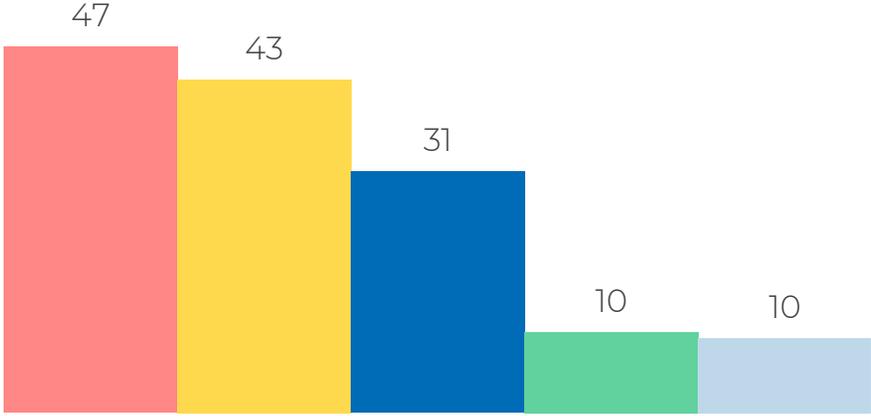
- Paying back the missed rent over next months
- None at all
- Temporary rent abatement or reduction
- Making more frequent payments (say every 10 days) than making one full payment
- Other

RENT PAYMENT OPTIONS: NON-RESIDENTIAL

- 69% of respondents reported landlords of non-residential buildings offered rent payment options (31% did not offer any rent payment option).
- The most common forms of assistance were allowing the tenant to pay the missed rent over several months (47% of respondents reported this as an option) and rent abatement or reduction (43% of respondents reported this option).
- “Other payment options’ cited by respondents were “extending the lease term for deferred rent”, “extended term on rent abatement”, “using deposit for rent”, “lump sum due in one year”, “no late fees”, “amortizing unpaid rent over some months”, “deferring missed rent to end of the term”, delaying common area maintenance dues.”

Among your non-residential tenants, what rent options are offered to assist tenants?
Select all that apply.

Percent of respondents



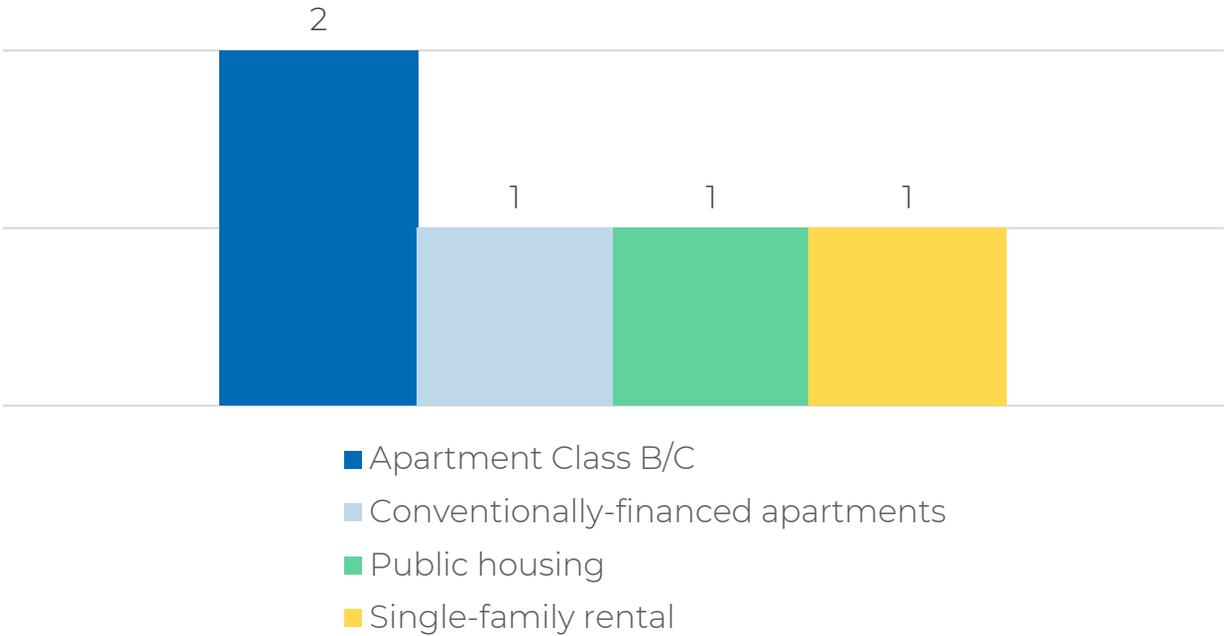
- Paying back the missed rent over next months
- Temporary rent abatement or reduction
- None at all
- Making more frequent payments (say every 10 days) than making one full payment
- Other

EVICTION: RESIDENTIAL

- The median response about the fraction of residential tenants who were in the process of being evicted in 2020 Q2 was 2% for apartment class B/C tenants and 1% each for tenants in conventionally-financed apartments, public housing, and single-family rentals. The median was 0% among tenants in apartment class A and federally-assisted housing buildings.
- However, the median response about the fraction of residential tenants that have been evicted as of 2020 Q2 compared to the number of tenants in January 2020 was 0% for all types of residential housing.

For each type of residential tenant, what percent were in the process of being evicted in the past quarter?

Percent of residential tenants in the process of being evicted in 2020 Q2



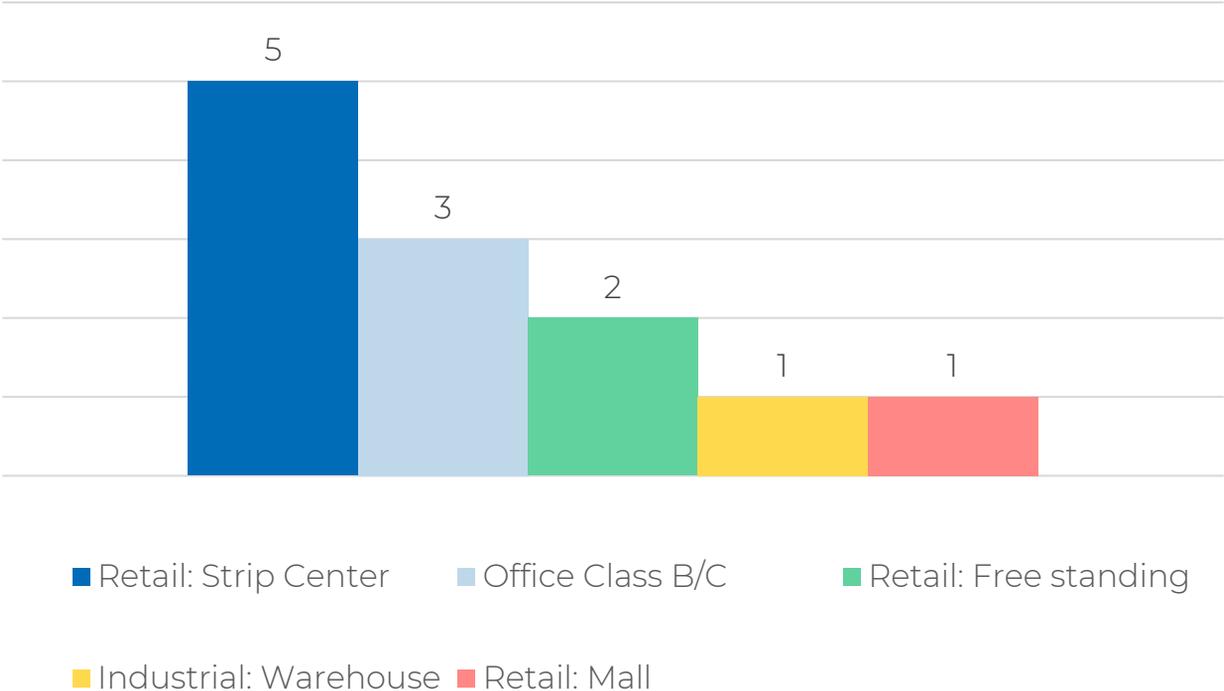
Apartment Class A and federally assisted housing are not show in the chart because 0% of tenants are in the process of being evicted.

EVICTION: NON-RESIDENTIAL

- The median response about the fraction of non-residential tenants who were in the process of being evicted in the past quarter was highest among retail strip center tenants at 5%, followed by office class B/C tenants, at 3%.
- The median response about the fraction of tenants who were in the process of being evicted in office class A and industrial flex buildings was 0% each.
- However, the median response about the fraction of non-residential tenants that have been evicted as of 2020 Q2 compared to the number of tenants in January 2020 was 0% for all types of residential housing.

For each type of non-residential tenant, what percent were in the process of being evicted in the past quarter?

Percent of non-residential tenants in the process of being evicted in 2020 Q2



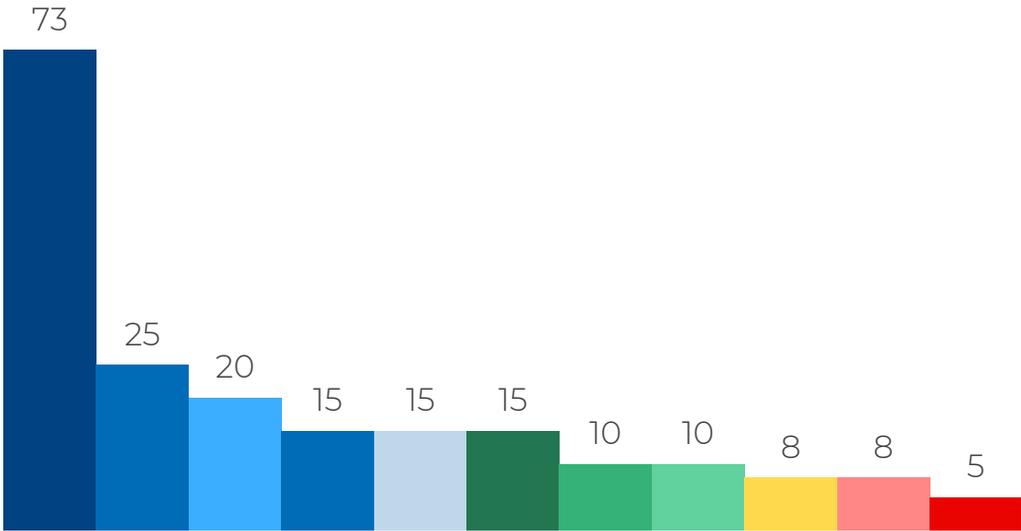
Industrial Flex and Apartment Class A are not shown in the chart because 0% of tenants are in the process of being evicted.

VACANCY RATES

- Hotels had the highest vacancy rate, at 73%, followed by retail malls, at 25%, and free-standing retail stores, at 20%.
- Office vacancy rates were at 15%, and industrial vacancy rates were at 10%.
- Residential buildings had the lowest vacancy rates, at 8% among apartment buildings and 5% among single-family units.

On average, what is the vacancy rate for the properties you leased or managed in the past quarter?

Median vacancy rate among properties managed by respondents



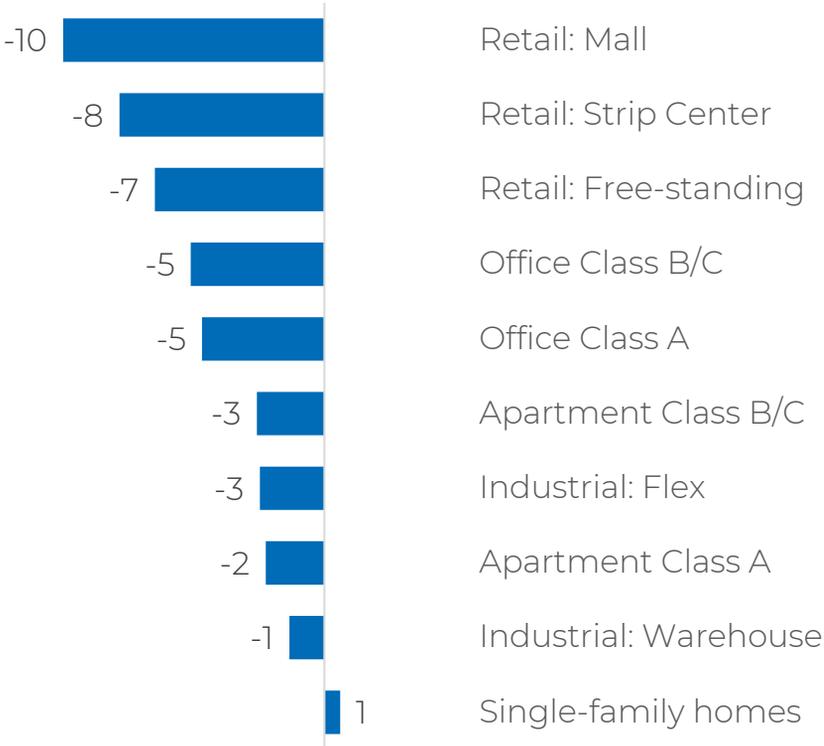
- Hotel
- Retail: Freestanding
- Office Class B/C
- Industrial: Warehouse
- Apartment: Class A
- Apartment: Single-family
- Retail: Mall
- Office Class A
- Retail: Strip
- Industrial: Flex
- Apartment: Class B/C

LEASING VOLUME

- Leasing volume (renewal and new leases) declined the most at retail malls, down by 10% year-over-year in 2020 Q2, by 8% in strip centers, and by 7% in free-standing retail stores.
- Leasing volume was down on average by 5% year-over-year in office properties.
- Leasing volume in apartment buildings was down 3%. On the other hand, leasing volume increased by 1% in single-family home rentals.
- Industrial warehouse properties had the lowest decline in leasing volume of 1%.

By property type, compare your lease volume (renewal and new leases) in the past quarter from one year ago.

Year-over-year percent change in leasing volume in 2020 Q2

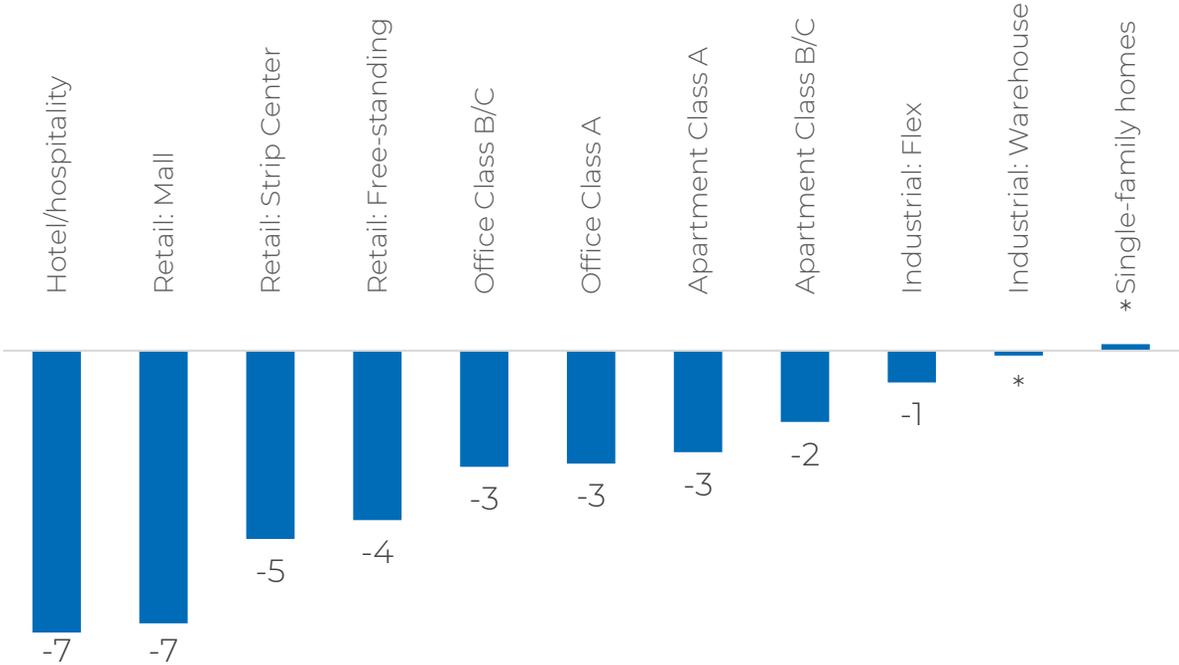


EFFECTIVE RENT

- Hotels suffered the largest decline in effective rent per square foot, at 7%, followed by retail malls, strip centers, and free-standing stores where rents were down 3% to 5% on average.
- The effective rent for office space declined by about 3% year-over-year.
- The effective rent for apartment was down by about 2% to 3% year-over-year. However, it was slightly up for single-family home rentals.
- Industrial flex and warehouse properties had a slight decline of less than 1% year-over-year, with a lower rate of decline in the effective rent in industrial warehouses.

By property type, what was the average change in effective rent per square foot (NNN) in the past quarter compared to the same period last year for the properties you leased or managed?

Year-over-year percent change in effective rent per sq. ft. in 2020 Q2



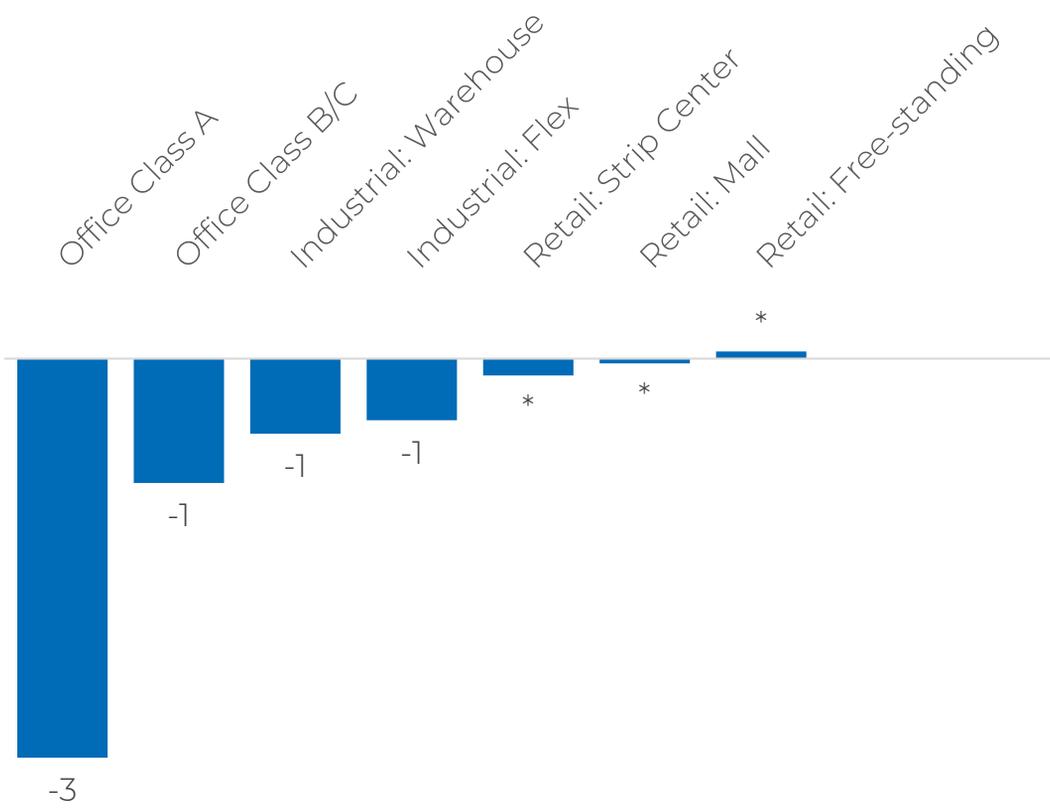
* Less than 1%

COMMON AREA MAINTENANCE FEES

- Across all property types, respondents reported that the bulk of landlords have not increased common area maintenance (CAM) fees.
- On average, respondents reported a decrease in CAM fees for non-residential property types. Some respondents had reported that not increasing CAM fees was one way of assisting tenants with the rent payment.
- While CAM fees declined on average, about a fourth to a third of respondents reported that landlords have increased CAM fees, with the highest share of respondents reporting an increase in CAM fees in office buildings and retail strip centers.

By property type, what is the average change in common area maintenance (CAM) fees of the properties you managed in the past quarter compared to the same period last year?

Year-over-year percent change in CAM fees in 2020 Q2

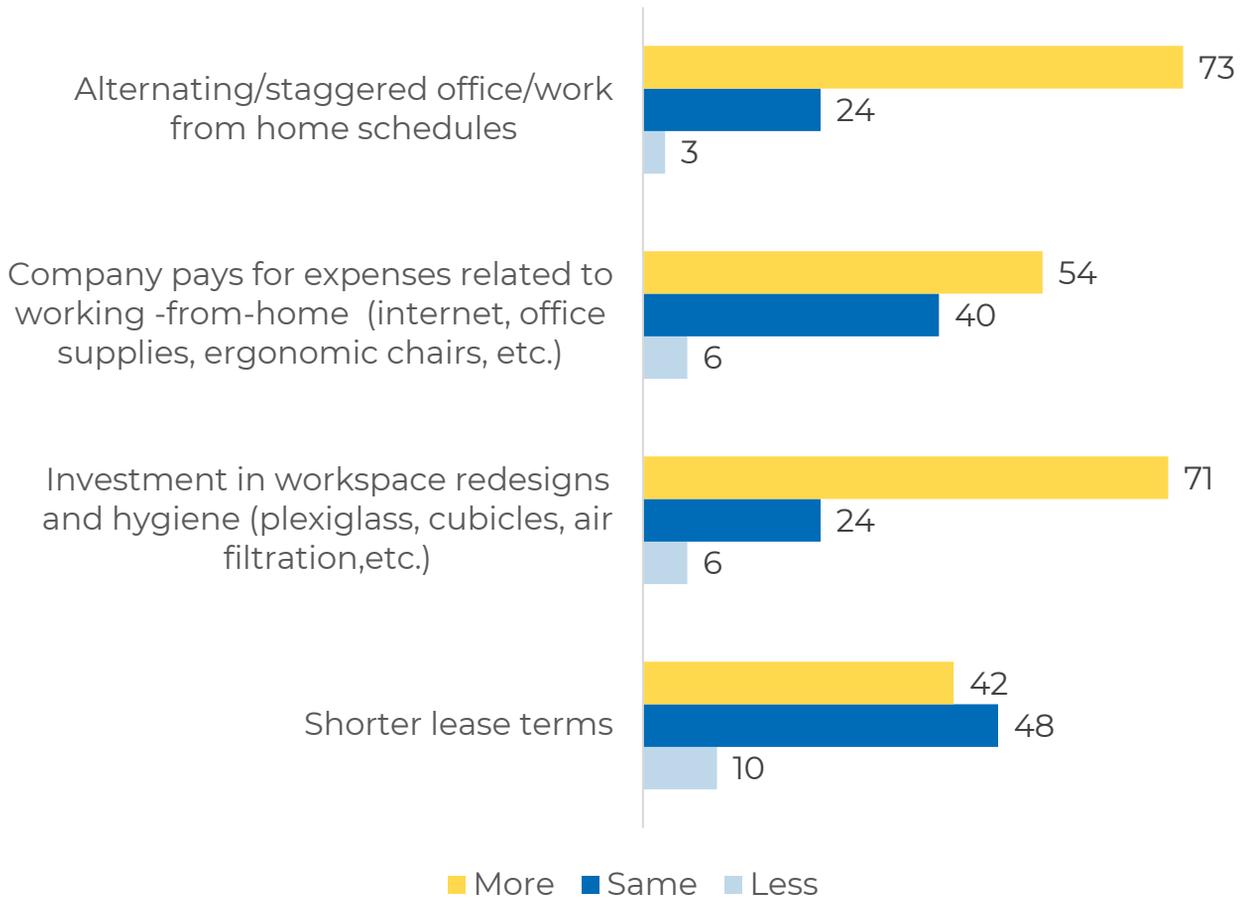


* Less than 1%

LEASE TERM AND CHANGES IN THE WORKPLACE

- Seventy-three percent of respondents reported they are seeing more offices implementing staggered work schedules, so more than half also reported that companies are paying for expenses related to working from home (54%) and making investments to keep work places safe (71%).
- Forty-two percent of respondents reported more short-term leases, but nearly half reported that lease terms have remained the same .

What changes are you seeing or undertaking in the properties you leased or managed compared to January 2020 (pre-coronavirus condition).



Methodology

Objective



The coronavirus pandemic has heavily hit the demand for commercial real estate: multifamily, office, retail, and hospitality/lodging. This objective of this survey is to gather information on leasing conditions in the second quarter of 2020 about rent collection, rent payment options, eviction, leasing volume, vacancy rates, lease term, and changes in the work place.

Dates



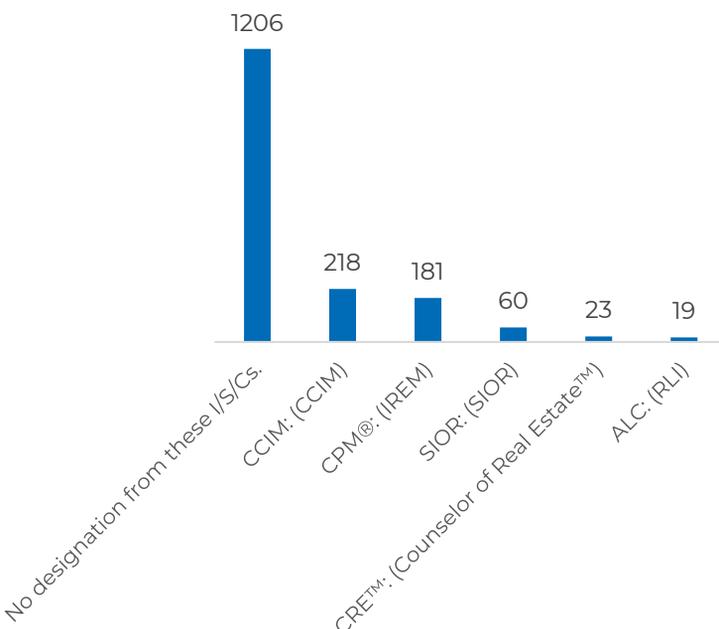
The survey was deployed on July 1, 10 am, and it closed on July 10, 11:59 p.m..

Respondents



The online survey was sent to approximately 76,000 NAR members who are primarily engaged in commercial real estate, which includes designees and members of IREM, CCIM, SIOR, RLI, and CRE.

Distribution of Respondents by designation



Among those who responded to the online survey (opened the survey), only those engaged in property management or who work with leasing clients were then asked to fill out the survey, yielding an initial 1,613 respondents. The number of respondents for each question will vary from this initial number due to non-response or non-completion of the survey.

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The term REALTOR® is a registered collective membership mark that identifies a real estate professional who is a member of the National Association of REALTORS® and subscribes to its strict Code of Ethics.

Working for America's property owners, the National Association provides a facility for professional development, research and exchange of information among its members and to the public and government for the purpose of preserving the free enterprise system and the right to own real property.

NATIONAL ASSOCIATION OF REALTORS® RESEARCH GROUP

The Mission of the National Association of REALTORS® Research Group is to collect and disseminate timely, accurate and comprehensive real estate data and to conduct economic analysis in order to inform and engage members, consumers, and policymakers and the media in a professional and accessible manner.

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For over 85 years, our members have made us the world's strongest voice for all things real estate management. Today, almost 20,000 leaders in commercial and residential management call this home for learning, certifications, and networking.

Assets managed by U.S. IREM CPMs:

- Nearly \$2.1 trillion
- 11.6 million residential units
- 12 billion square feet of commercial space

Total of U.S. market managed by CPM members:

- Federally-assisted housing – 38%
- Conventionally financed apartments – 32.4%
- Public housing – 24%
- Office buildings – 17.9%
- Condos/Co-ops/HOAs – 13%
- Shopping centers/retail – 9.1%
- Industrial/Industrial parks – 8.8%
- Medical buildings – 8.6%
- Senior housing – 7.8%

Visit the [iREM](#) webpage to learn more about this NAR affiliated institute.