



Alert | How can commercial landlords survive COVID-19?

31 March 2020

With COVID-19 dominating the headlines, the impact on business is being keenly felt. Many businesses, particularly in the hospitality and retail sectors, are facing serious cashflow shortages, with several slated to go out of business.

Some commentators are saying that landlords and tenants should be talking, with a view of helping tenants. But what of landlords? No landlord wants to lose tenants, particularly those that have traditionally been good. And no landlord wants to be involved in disputes over delayed or unpaid rents, with little prospect of finding a replacement.

The Federal Government has announced that landlords will not be able to evict tenants affected by the crisis, for a period of six months, although there is a lack of detail on the reach of this moratorium. This could effectively mean that tenants might defer rent for this period. Even without the moratorium, tenants are asking for help (rent abatement or deferral), to help ease the burden. But these measures merely delay the problem, and it is not clear that tenants would be able to repay the back-rent once matters settle down and/or the six-month eviction moratorium is lifted.

What can be done?

Landlords should be talking to tenants, to find out how COVID-19 is affecting the client's businesses and their ability to pay the rent. Different businesses are affected more drastically, and the impact on the ability to pay the rent differs across sectors. Simply winding up tenants for unpaid rent is not always cost-effective.

Rent deferral (whether government mandated or otherwise agreed upon) is only a short-term fix. Other mechanisms can be considered, including taking equity positions and payment plans. However, a combination of several different mechanisms might be the most appropriate solution for all involved.

Sparke Helmore Consulting has a network of experienced specialists that can help in times like these. Our experts have both analytical and business experience as well as an understanding of the different cashflows that can affect you and your tenants.

We can also provide advice directly to landlords, to help them manage their own cashflow during these difficult times.

Advantages of approaching tenants now

The advantages for approaching tenants now, before they fall behind in their rents, include:

- Keeping a good tenant
- Avoiding legal fees in having disputes with tenants
- Keeping cashflow, by avoiding empty premises
- Avoiding costs of re-letting
- Coming up with novel ways that help both parties
- Maintaining goodwill with tenants and the community

It should also be noted that the government has announced measures to make it harder to commence winding up and bankruptcy proceedings. These measures make it even more difficult to commence legal proceedings.

A forensic analysis of your clients

Based on a simple questionnaire and review the tenant's industry and cashflow projections, we can provide an analysis of the tenant, and advise on the most effective strategy. The analysis involves answering four questions:

What can tenants afford?

- Review the tenant's industry and cashflows
- Consider the impact of COVID-19 on the business
- Categorise the impact as: insurmountable, destructive, difficult, negative or (for some businesses) positive
- Review what the tenant is doing to mitigate the impact
- Consider whether the impact will abate in the short or medium term
- Determine the amount of rent that can be paid

How important is this tenant to the landlord's property?

- Does the tenant affect the overall property— anchor stores or pharmacies (for shopping centres); or childcare centres (offices)?
- Is there a long history with the tenant?
- Will the premises be easily repurposed?

Is rent deferral appropriate?

- Deferral is useful to provide short-term relief for some tenants
- It is not appropriate for those most or least affected by COVID-19
- Some tenants won't be able to repay their back-rent, even when the disaster passes

What other options are available?

- Deferral is just one option in a raft of many
- Rent reductions (that is, partial waivers) in some cases
- Payment plans for unpaid rent, and obtaining finance from other sources, can also be considered
- Equity positions in tenant
- Agreeing to terminate a lease early to allow for re-letting

Sparke Helmore Consulting can provide an analysis of your tenants' businesses, to determine what steps can and should be taken to assist them through this crisis. This will, in turn, help the landlords, as they maintain a happy and rent-paying tenant.

Further information

If you need help contact us via email or our phone numbers below. We can support you virtually without the need to visit your premises.



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