Commercial Real Estate

Philly landlords face slim returns from retail tenants as first rents of coronavirus pandemic era come due

With nearly all shops and restaurants weakened by efforts to limit the pandemic's spread, retail property owners have little to gain from playing hardball with their tenants.

Urban Outfitters has told landlords that it won't be paying rent in April after being forced to close its stores because of the coronavirus.
TYGER WILLIAMS / STAFF PHOTOGRAPHER

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by Jacob Adelman
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Philadelphia property owners say they're preparing to cut their retail tenants considerable slack in the coming days, when they are due to make their first rent payments since the coronavirus forced them to close shop.

Those landlords may not have a choice.

With nearly all shops and restaurants weakened by efforts to limit the pandemic's spread, retail property owners have little to gain from playing hardball with their tenants, because emptied storefronts may stay that way.

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"It's not as if people are going to be queuing up to lease those same properties," said Chester Spatt, a Carnegie Mellon University finance professor. "There's likely to be considerable need for, and perhaps scope for, forbearance."

Unprecedented numbers of people in the Philadelphia region and beyond have found themselves out of work, as businesses — a large portion of them shopping and eating establishments — are shuttered.

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Nationally, the restaurant industry lost more than $25 billion in sales during the first 22 days of March, according to a survey of more than 4,000 restaurant owners and operators conducted by the National Restaurant Association.

While 44% of those surveyed said their closures are temporary, 3% expected to stay shuttered for good, and 11% more anticipated permanently closing within 30 days.

In Philadelphia and its neighboring counties in Pennsylvania, more than half of the job sites where major employers announced layoffs have been shops or restaurants, according to data from the state Department of Labor and Industry.

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"The entire nation of rent-collecting landlords is bracing for what happens April 5, when most rents are due without penalty," said Leo Addimando, managing partner of Alterra Property Group, which hosts retail tenants at properties such as the Lincoln Square apartments at Broad Street and Washington Avenue.

At stake is much of the $15 billion to $20 billion that real-estate-data tracker CoStar Group estimates is collected in a typical month by U.S. retail landlords.

Those landlords will now be hard-pressed to turn down requests for relief such as rent reductions or deferrals, according to a report published Tuesday by the Kroll Bond Rating Agency.

"Retailers with thousands of stores across the nation ... are reportedly negotiating rent relief," Kroll wrote. "The unusual circumstances resulting from this pandemic make it likely that many such requests will be granted in an effort to maintain occupancy."

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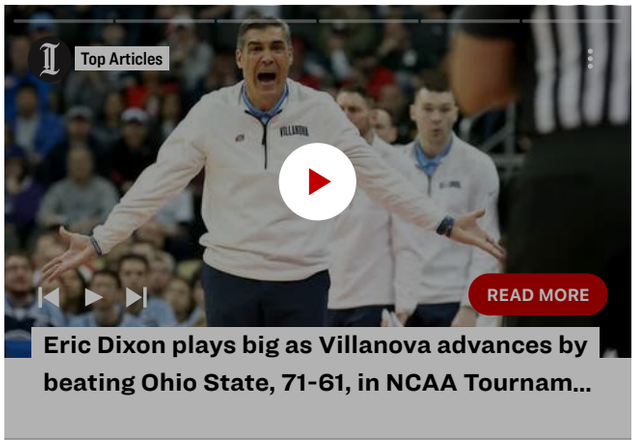

Some retail and restaurant groups have already conceded openly that they won't be paying rent in April as part of business-survival strategies that also include mass furloughs.

They include the Cheesecake Factory Inc., which has locations in Center City, Cherry Hill's Towne Place at Garden State Park, and the King of Prussia Mall, and Urban Outfitters Inc., which — along with subsidiary brands such as Anthropologie and Free People — has stores in Center City, the Cherry Hill and King of Prussia Malls, and at Ardmore's Suburban Square shopping center.

Meanwhile, Macy's announced it will furlough most of its 125,000 workers after shuttering 775 stores, including its 435,000-square-foot Center City location near City Hall.

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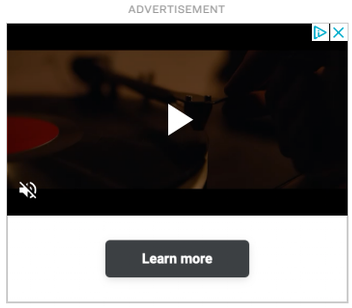

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Gap Inc., which has locations in Center City and Suburban Square, as well as in Cherry Hill's Towne Place, announced furloughs affecting 80,000 workers.

Macy's Inc., which also owns Bloomingdales, and Gap, whose brands include Old Navy and Banana Republic, have not said publicly that they will seek to withhold rent. But that doesn't mean they aren't aiming to.

"Cheesecake Factory was somewhat unique in announcing they would not pay April rent," said Alan Lee, an analyst with retail consulting firm F&D Reports, during a real estate webinar on Wednesday. "Pretty much every retailer or restaurant operator is going to be having these discussions with landlords."

Representatives of landlords of those big chains locally, including Center City property owners Pearl Properties, Midwood Investment & Development, and the Arden Group, did not respond to requests for comment.

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Messages left for Kimco Realty Corp., owner of Suburban Square, and Simon Property Group, which owns King of Prussia Mall, also yielded no responses.

A spokesperson for TF Cornerstone, which acquired the real estate occupied by Center City's Macy's in December, declined to comment.

Pennsylvania Real Estate Investment Trust, owner of the Cherry Hill Mall, also did not respond to requests for comment.

"We continue to navigate an uncharted operating environment," PREIT chief executive Joseph F. Coradino said in a release Tuesday announcing a 90% reduction of its quarterly dividend, to 2 cents a share, in a package of measures to shore up its finances.

Still, it may be smaller, independent businesses — and, by extension, their landlords — that bear the brunt of the economic impact of the virus.

In a typical community, fewer than half of small businesses had even a two-week cash cushion, according to a 2019 report by the JPMorgan Chase Institute.

David Waxman, founder of developer MM Partners, owner of the Civic apartments at the former St. Joseph's Hospital in the Fairmount neighborhood, said he's been working out deals with his company's retail tenants that include letting them borrow against their security deposits to make rent.

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"What are you going to do? You can't get blood from a stone," said Waxman, whose retail tenants include Yoga Habit, a branch of the Green Eggs Cafe brunch restaurant chain, and the Thirsty Dice board-game parlor. "And it's just not right to be aggressive."

The Post Brothers property group, meanwhile, is working "with those who demonstrate a need to defer payment because of the coronavirus crisis by showing us that they are using all available resources to meet their obligations," company president Matthew Pestronk said in an email.

"We expect that businesses with the ability to pay in full will do so, others will pay what they can," said Pestronk, whose company houses retailers on the ground floor of its apartment buildings, including those making up the Piazza development in Northern Liberties.

Alterra's Addimando said his company was taking a similarly collaborative position.

"If there's any reasonable way to work with you, we're trying to find reasons to, not trying to find reasons not to," Addimando said. But "if we start not collecting rent, we can't pay our employees, either."

Jason Friedland, a partner with Iron Stone Real Estate Partners, said most occupants of his group's 300,000 square feet of retail at various sites in Center City, Germantown, and the Northeast have been left "essentially insolvent" by the pandemic.

Iron Stone has told its retail tenants, which include gyms, hair salons and day-care centers, that it will offer them forbearance if they show that they're applying for government-led loans and grants that aim to help small businesses through the worst of the health crisis.

But some may not see a future for their businesses, even with a break on rent.

"If people don't have any money, there's only so much you can do," Friedland said. "They're all small-business owners. It's not like they have deep pockets to weather a long shutdown."

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I cover commercial real estate, economic development, and other financial news topics, with a focus on data and accountability.

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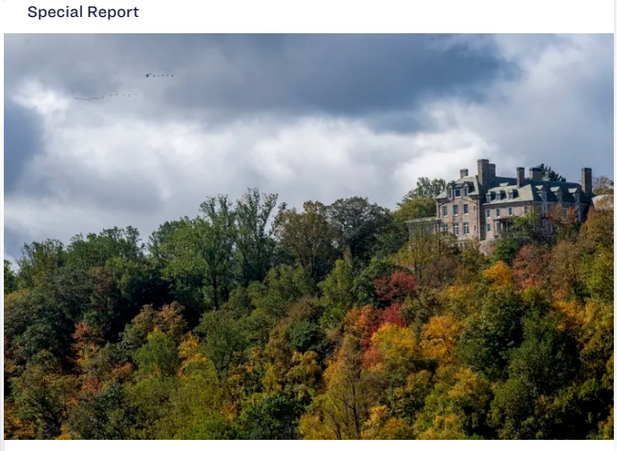

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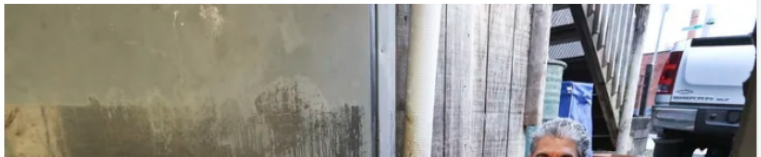
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