

Markets

Fight Over Commercial Rent Gets Ugly With Default Wave Looming

By [Natalie Wong](#)

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► **Shuttered retailers pushing back on demands from landlords**► **Malls have struggled to collect with virus hammering economy**

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A pedestrian walks through the Fashion Show Mall on the Las Vegas Strip. *Photographer: Joe Buglewicz/Bloomberg*

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Tension is rising in the messy fight over commercial rent payments.

With stores shuttered, struggling retailers are skipping rent and asking for concessions, while landlords are demanding payment and having their own tricky conversations with lenders.

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There are no easy answers as officials ponder how to safely get the economy back open. So far this month, some mall owners and other retail landlords collected as little as 15% of what they were owed, according to one estimate. And it's expected to get worse, with more than \$20 billion in rent payments coming due in May.

"It's all over the map what's happening out there," said Tom Mullaney, a managing director in restructuring at Jones Lang LaSalle Inc. "More and more defaults are coming in every single day."

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A pedestrian wearing a protective mask walks past a boarded up store closed in New York. Photographer: George Etheredge/Bloomberg

Companies across the U.S. -- from small mom-and-pop operations to giant corporations -- have missed April payments or sent out relief requests citing store closures because of the pandemic.

Pushing Back

Landlords have been pitching rent deferment, saying tenants can make reduced payments now as long as they pay the balance at some point. Some businesses are pushing back on that option and asking for rent cuts even after stores are open again.

U.S. retail landlords typically collect more than \$20 billion in rent each month, according to data from CoStar Group Inc. So far, April rent collection has ranged from 15% to 30% for landlords with higher concentrations of shuttered businesses, according to an estimate from brokerage firm Marcus & Millichap.

Landlords, who are facing their own debt defaults, are getting frustrated. Some are complaining that large corporations are using the crisis to skip out on rent. Others say they're not responsible for bailing out tenants and that the federal government or insurance companies should cover the costs instead.

"The landlords are triaging the battlefield," said Gene Spiegelman, vice chairman at Ripco Real Estate Corp. "The super powerful and strong are not going to get any help and the ones that'll die anyways, landlords will say why would I help them?"

Some Pay

To be sure, some landlords and tenants are working out deals on a case-by-case basis. And some companies are paying rent for their stores. That includes AT&T Inc. and T-Mobile USA Inc. according to people familiar with the matter. J.C. Penney also said it paid for April.

Ross Stores Inc. and fitness chain Solidcore, meanwhile, are among those standing firm on requests for rent abatements and asking for additional concessions. Williams-Sonoma Inc. is another chain that has stopped paying rent, according to people familiar.

Ross has told landlords that after the shutdown ends their rent on some stores should be cut until sales rebound. Solidcore hasn't agreed to rent deferral and said it likely won't be able to pay the same rent as it was before pandemic.

"We're not going to be bullied by the landlords during this time," said Anne Mahlum, the fitness company's founder and chief executive officer said. "We have some leverage here. What are they going to do, say get out and then have vacancy for months on end?"

Backfire

Tenants' refusal to pay will likely backfire, according to Jackson Hsieh, CEO of retail landlord Spirit Realty Capital Inc.

The firm, which owns more than 1,700 properties, has seen requests for rent relief since the crisis started. But several of those tenants ended up paying, according to Hsieh.

One agreed to pay after getting loans from the government's relief package, while another did so after being asked to provide financial information. A discount retailer and a company in the auto industry paid after Spirit refused to consider their rent deferral requests.

"If a tenant just says I'm not going to pay, fine, I'll default you, I'm going to go to the courts, and you have 30 days to pay or quit," Hsieh said. "I don't want to be negative, but we own the building."

Pending Loans

Many landlords are rushing to work out deals with lenders to stave off their own defaults. Banks and insurance companies are negotiating deals on a case-by-case basis, but borrowers in commercial mortgage-backed securities have fewer options.

About 9% of U.S. CMBS retail property loan borrowers have been late on April payments so far, according to preliminary analysis of remittance by data firm Trepp. If that number holds up, missed CMBS payments could exceed \$10 billion for the month.

"The banks are a little more fluid and often there's recourse," said Camille Renshaw, CEO brokerage firm B+E.

"But many large properties have CMBS debt and when there's a crisis, no one is there to pick up the phone to negotiate."

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– *With assistance by Gillian Tan, and Scott Moritz*

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