

CBRE OCCUPIER FLASH CALL

APRIL 14, 2020 CALL SUMMARY

CBRE leaders shared their perspective and advice on immediate issues and hot topics including the global impact of COVID-19, current economic outlook, the complexities of the rent abatement issue, and productively returning to the built environment with a heightened focus on health and safety.

Listen to the [call recording](#)

KEY POINTS FROM THE OCCUPIER FLASH CALL

FOCUSING ON SAFETY AND WELL-BEING

Bob Sulentic, Chief Executive Officer

CBRE continues to focus on addressing the needs of our employees and clients during this unprecedented time. We are committed to staying closely connected with our clients and delivering timely, actionable and forward-looking insights.

Our approach to addressing COVID-19 is comprised of three key components:

1. Our decisions are informed by research, client feedback and subject matter expertise across CBRE's product lines, functions and geographies.
2. We are focused on supporting and maintaining an engaged, connected and healthy team, enabled by our People (Human Resources) and Digital & Technology groups, who provide critical support and training to our employees.
3. CBRE has allocated financial and leadership resources to adequately support the two foregoing priorities.

GLOBAL IMPACT OF COVID-19 AND CURRENT ECONOMIC OUTLOOK

Julie Whelan, Americas Head of Occupier & Investor Research

A return to normal is imperative from a social and economic standpoint, but this must be carefully balanced against health and safety concerns.

The U.S. is squarely in phase one of the COVID-19 pandemic, where drastic shelter-in-place measures are necessary to contain the spread of the virus. These measures have a significant economic impact, and we will see a downturn in Q2, with GDP growth of negative 20–25% and unemployment rates likely rising above 10%. As the rate of new cases of COVID-19 begins to slow, we project restrictions will begin to ease in mid- to late-May, and assuming restrictions successfully ease, we should see economic stabilization and bounce-back in the latter half of 2020, with strong growth in 2021.

Phase two will be marked by a return to the workplace. The restart of the economy will be dependent on how successful we are at reentering society and “normal life,” including how we interact with buildings that have been dormant in the current environment. Reentry will likely have starts and stops but will gain traction as testing becomes more widespread and permits easing of restrictions.

Phase three, when therapeutics or even a vaccine eradicate COVID-19, could be as much as 18 months away, so adjusting to a new normal in the interim is imperative. CBRE has developed advice for occupiers and owners to help you navigate this environment.

COMPLEXITIES WITH THE RENT ABATEMENT ISSUE

Lewis Miller, Vice Chairman, New York Consulting

The vast majority of leases do not provide an explicit right for a tenant to receive a rent abatement in the current situation, but it is important to review all leases as this right is afforded to some tenants, usually through the Interruption of Services and Force Majeure clauses.

Most landlords are being very careful in their approach to office and industrial leases. Thus far landlords have been reluctant to provide an absolute rent abatement, unless the solvency of the tenant hangs in the balance. Landlords are requiring significant financial information and making any abatement contingent on securing lender approval, where required.

Very few office and industrial rent abatements have been completed, given the recent nature of events. However, rent relief structures that have gotten the most traction include:

- Full or partial deferral of monthly rent with a payback (with or without interest) over some period during the remaining lease term.
- Free rent today in exchange for a lease extension of varying durations.
- If a tenant is entitled to free rent or an allowance in the future, some landlords have agreed to accelerate those benefits to the current time period.
- Utilization of security deposit to fund rent with replenishing of security deposit at a later date.
- Some landlords have agreed to abate certain monthly charges for things such as parking and condenser water, and/or lower estimates as to 2020 operating expenses to reduce the current monthly estimates paid by tenants for escalations.

The nature of a lease is that it creates a long-term relationship between the landlord and the tenant, and over the life of a lease each party will need to look to the other to act reasonably irrespective of what the lease says.

In situations where it is appropriate, landlords should be working with their tenants to provide reasonable solutions today, and consider any rent abatements or deferrals that may be part of that solution as an “investment” in their business which in the long term will pay dividends in the form of an enhanced reputation and the preservation of a long term rental stream.

Similarly, tenants must honestly evaluate their own situations to determine those instances where some form of rent relief is important to their ongoing operations versus those instances where it “just feels fair.”

Emotions are running high for both landlords and tenants, and the key to any successful dialogue will hinge on both parties being transparent, acting reasonably and making requests based on necessity, not leverage.

RETURNING TO THE BUILT ENVIRONMENT

Bill Concannon, Global Group President, Clients & Business Partners

Karen Ellzey, Global Leader, Consulting & Analytics and GWS Global Crisis Management Lead

CBRE is developing reentry plans to support our clients and colleagues in a safe return to the workplace that includes health, technology and space design considerations, with the goals of:

1. Complying with government guidelines and recommendations from authorities such as the CDC.
2. Supporting reopening plans across all facility types our clients occupy, including offices, corporate campuses, data centers, industrial buildings and others.
3. Delivering services that enable new workplace standards, such as physical distancing measures.

We have learned many early lessons from our colleagues in Asia, who have begun the process of reopening corporate work environments of all types. These lessons include:

1. Safely reopening facilities requires detailed advance planning and it’s a team effort: key partners need to be engaged throughout the process, including the business’s executive leadership; functional experts in areas such as health and safety, HR, IT, sourcing, finance, facilities and communications; suppliers such as janitorial and food service; and landlords. Expect continued supply chain disruption for key items needed for reopening and plan ahead.

2. Prepare for a phased return to work and begin planning now for what types of phased reentry strategies will work for your business. Communicate to employees in advance so they know what to expect upon returning to the work environment and understand any ongoing flexible work-from-home policies in the early days of reentry.
3. Develop access and space-use policies. Implement new protocols to manage building entries and new types of screening activities, limit visitors as a general rule and introduce physical distancing practices within the workplace, such as closing off conference rooms, increasing the space between seats and eliminating face-to-face seating configurations.
4. Develop and deploy effective signage and ongoing communications. Employees will expect to be continually informed of policies and see evidence of heightened safety efforts and cleaning practices.
5. Stay ready to adapt and respond. Occupiers and their teams must continue to monitor governmental public health advisories and adapt their policies in response.
6. Plan for increased expense to reopen work environments. On the operating side, there will be added costs for items like enhanced cleaning, hand sanitizer and screening services. Capital will be necessary for space reconfiguration and changes to furniture, fixture and technology components.

Get the Latest Coronavirus Updates: Visit CBRE's [Global COVID-19 Resource Center](#)