

WHERE TO NOW FOR COMMERCIAL TENANTS?



TAKE AWAYS FROM MONDAY'S WEBINAR | MARCH 30th, 2020 |

THE CURRENT SITUATION

As this year's health and economic crisis unfolds, there are memories of the early 90s, where interest rates spiked to 17%. This time however, it's the speed that is most daunting. We find ourselves in a rapidly unwinding economy where most businesses need to solve immediate cashflow problems. Leases can't be paid. And if they are paid, it might be at the expense of something else like staff and super. And longer term, in a declining economy, companies could be caught with fixed lease costs (likely at above market rates) – all at a time when they need to be nimble, and preserving cash.

THE GOVERNMENT RESPONSE

On Sunday Scott Morrison announced a national moratorium on residential and commercial leases for six months. He also said all landlords and tenants need to sit down and individually work out their situation. There is also further information coming from Josh Fydenberg and the individual states on this. On Monday morning Daniel Andrews confirmed the moratorium.

What does this mean for tenants and landlords?

Firstly - Tenants are a protected species – businesses are to carry as little costs as possible, during this isolation, so that they can keep staff employed and re-engage stood down staff when the health crisis is over. There's also deferral of business loans from the banks to assist, as well as the endless stimulus packages rolling out.

Secondly - This is a business hibernation plan, where landlords, banks, councils and the states are expected to share the pain. More information is expected on this.





WHAT SHOULD TENANTS DO NOW?

Collectively in the industry, this could be our Denis Denuto moment, where 'It's about the vibe'.

But before you pick up that phone....

While there is short term pain for tenants, there is actually long term gain in preserving a good relationship with your landlord and behaving responsibly.

- **IF YOU CAN PAY YOUR LEASE, THEN PAY IT**

There will be some companies in a better position than 3 months ago. Not many, but there will be some. So act in good faith.

- **IF YOU ARE IN DISTRESS, COME TO THE TABLE AND TALK**

And be mature about it. Is Scott Morrison saying you are obligated to your lease and this is simply a deferment that aggregates over the remainder? We doubt it, because we are also being told tenants should not be overburdened with debt when they re-open.

- **EACH LEASE IN DISTRESS NEEDS A CONVERSATION**

We published an article on this last week on how to engage with your landlord. We also saw some aggressive approaches to landlords last week. Some companies demanded 6 months rent free without any consideration or negotiation with the landlord – those offers go to the bottom of the pile. Other tenants are simply refusing to pay rent. So don't be an opportunist. How we behave now, will be remembered for a long time. It's about relationships, communication and everyone working together.

- **RUN YOUR PLAN BY BRM SO WE CAN REVIEW IT AND ASSESS YOUR OPTIONS**

We are offering free phone chats this week to talk through your situation, before you approach your landlord. Please contact us to arrange a phone call.

DO I PAY RENT FOR APRIL (OR THE NEXT MONTH)?

- For most companies, no. In light of the freeze coming, we would recommend not paying next month's rent. If you have an auto-payment setup, put that on hold. You probably need that cash for more urgent things.
- But don't leave your landlord in the dark regarding your approach. Point out that the payment is simply quarantined, until we understand the government announcements, and receive new legislation. Perhaps the outgoings should still be paid, to be acting in good faith. Maybe a half payment can be made, to demonstrate willingness to work together.
- Use the moratorium and negotiations to build cash reserves and alternative streams of incomes where possible; companies will need cash reserves when freeze is lifted. SINCE RECORDING- the federal government HAS announced further support through the Jobkeeper initiative for employers with payments aimed at keeping people employed within businesses.

If you're after advice specific to your situation please book in a time to chat. BRM is here to help.

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