

COVID-19 Economic Impact Survey

JUNE 2020

Introduction

In our continuing effort to accurately assess the economic impact of COVID-19 on the Long Island economy, the Association for a Better Long Island (“ABLI”) and Long Island Builders Institute (“LIBI”), the region’s economic development community, whose members combine to form the region's largest taxpayer, has issued its **third** regional COVID-19 Economic Impact Survey.

Again, the purpose of the survey is to provide its membership, the region’s business community, policy makers and elected officials with insight into the nature of COVID-19’s economic impact and to identify a pathway that encourages recovery, restores tax revenues, and allows for renewed investment in the region.

The monthly surveys have been undertaken with the recognition that Long Island plays a crucial role in New York’s economy, and with an economic landscape now unrecognizable, the restoration of the bi-county’s region’s economy will play a significant role in determining the health of the state. (At the end of 2018, Long Island GDP was \$162.9B.)

Drawing from real estate leaders

The survey was undertaken by ABLI and LIBI as they are the largest real estate trade associations on Long Island. ABLI represents the largest commercial, industrial & mixed-use developers and LIBI represents the residential builders. In addition to developers, they represent real estate’s supportive service industry, including accounting, architecture, engineering and law firms, the financial community, energy and title companies, among other sectors.

The shared mission of the ABLI and LIBI is to protect, improve, and strengthen the Long Island economy by advocating on behalf of sensible growth, affordable energy, a reduced tax burden, investment in infrastructure and related issues that enhance the quality of life for all of Long Island, thereby protecting the region’s economic future.

A deliberate methodology

Each month, ABLI and LIBI invites its property owner members to participate in a survey that would create an accurate barometer of current market conditions now severely impacted by COVID-19. Survey participation commences on the 14th of the month as that day is strategically selected so its members would have an accurate account of rent payments for that specific month. The survey remains open for seven days, this month closing on June 21, 2020.

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While the participants answers are kept confidential, the data obtained and final report is made public to assist the various industries, elected officials and federal, state & local agencies track and assess the economic impact during and after the COVID-19 pandemic.

A significant cross section representing tens of millions of square footage

The survey received **thirty-one** responses. Combined, those participants represent **69,684,000 leased square feet** and **37,750 residential units**. In comparison, May's survey received forty-one responses representing 65,743,001 leased square feet and 48,816 residential units. While the number of participants decreased from May to June, June's survey represents a participant pool of an additional four million in leased square feet and 11,066 less residential units.

In June's survey, the **average participant represents 1,217 residential units and 2,247,870 leased square feet**. In comparison, the average participant represents 1,191 residential units and 1,603,488 leased square feet in May's survey.

It is important to note that ABLI and LIBI member participation was not required and full participation was not achieved. However, participants who did engage the survey were required to answer all questions.

If the question did not apply to a participant's real estate portfolio, for example if a participant was asked the percentage of retail nonpayment of rent and the participant does not lease retail space, the participant was asked to answer, "not applicable."

The pie graphs for those specific rent sector questions were adjusted to reflect the responses from the universe of participants. In addition, some participants were required to answer "not applicable" regarding revenue projections due to their public REIT status.

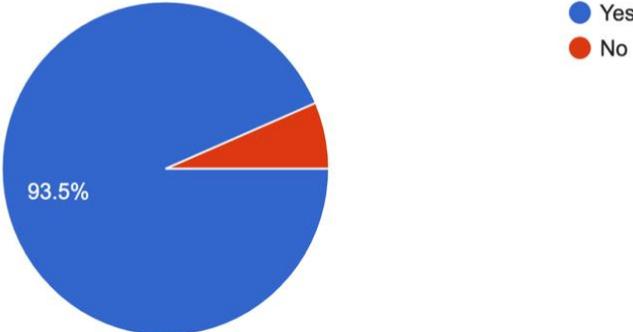
Lastly, line graphs were added to June's report to further demonstrate market trends between the period of April through June. The April and May COVID-19 Economic Impact Survey reports are available online at <https://www.nyabli.com/covid-19-economic-impact-survey>.

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GENERAL QUESTIONS

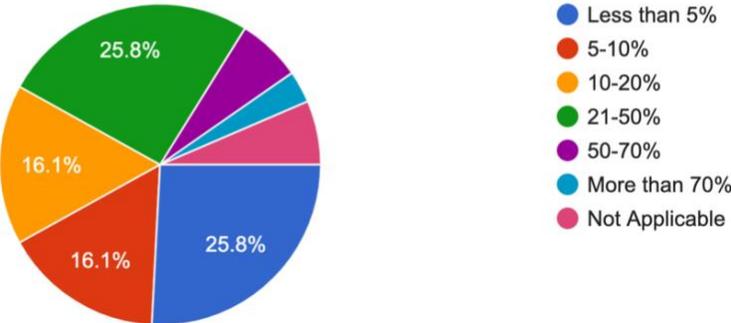
Are you projecting a decrease in revenue in the third quarter of 2020?

31 responses



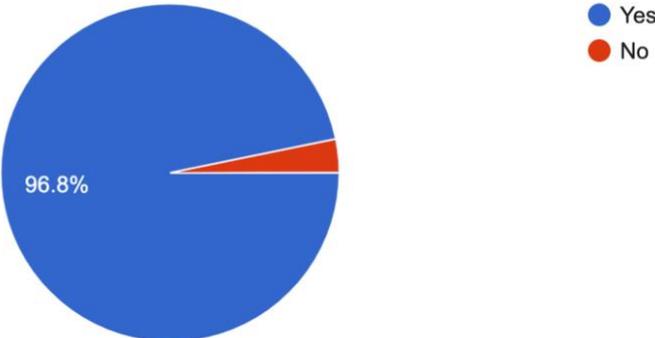
If yes, by how much?

31 responses



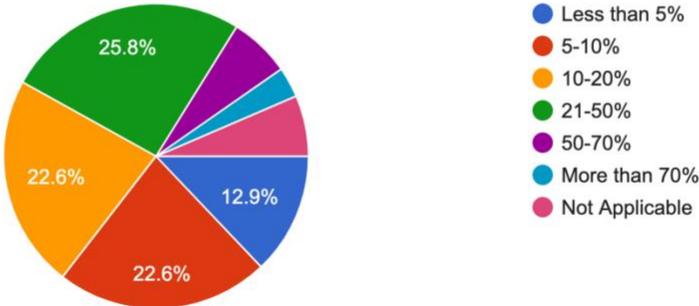
Are you projecting a decrease in revenue for your 2020 fiscal year?

31 responses

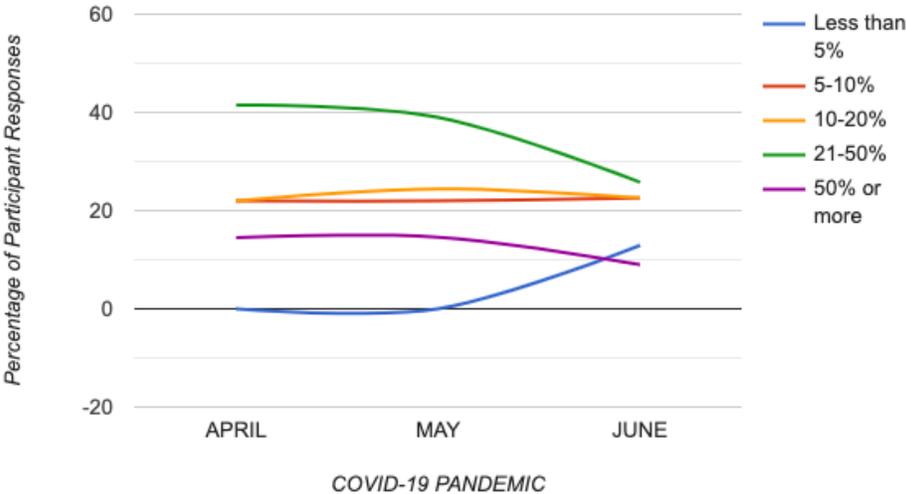


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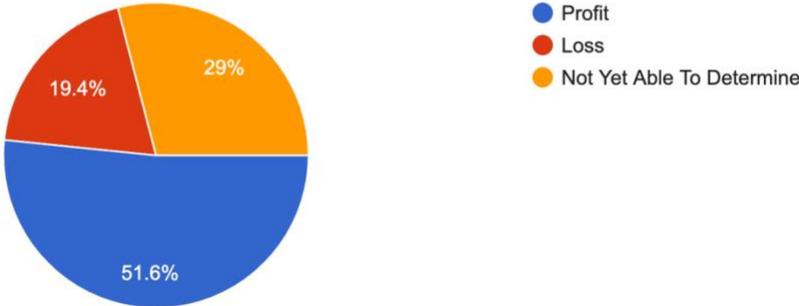
If yes, by how much?
31 responses



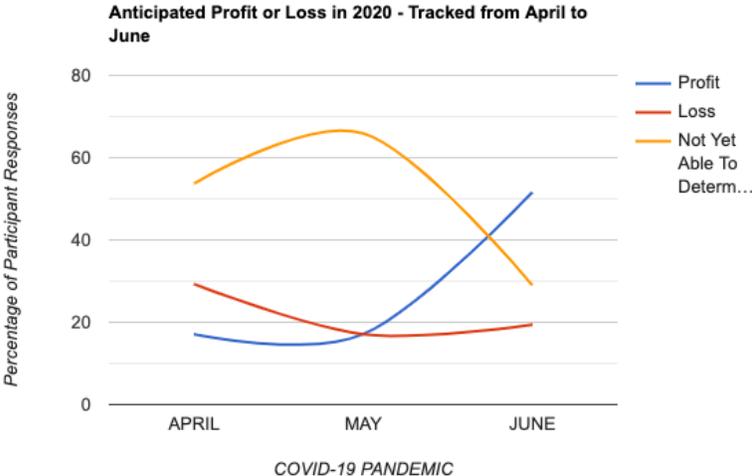
2020 Projected Percentage of Decreased Revenue - Tracked from April to June



Do you expect to make a profit in 2020 or experience a loss?
31 responses

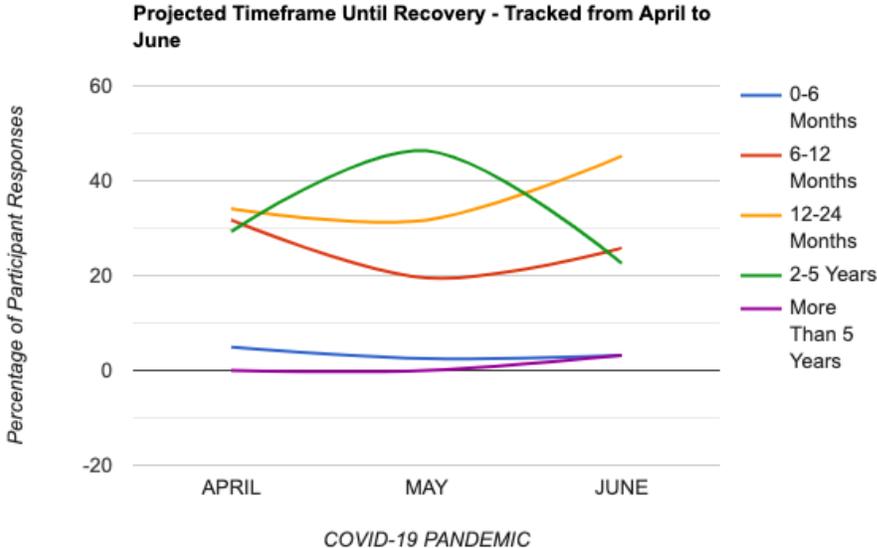
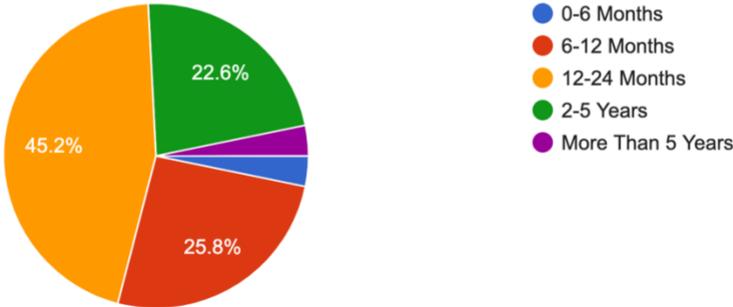


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What is your projected timeframe until Long Island's economic health is restored to pre-COVID-19 levels?

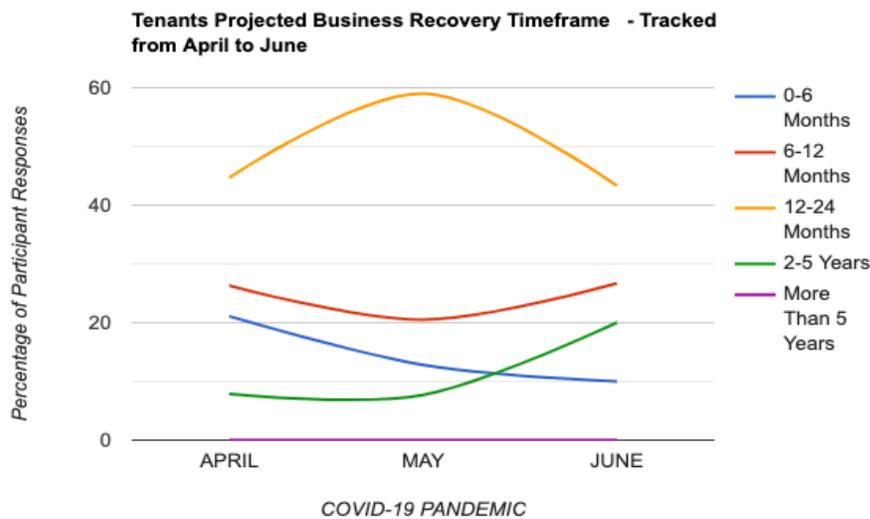
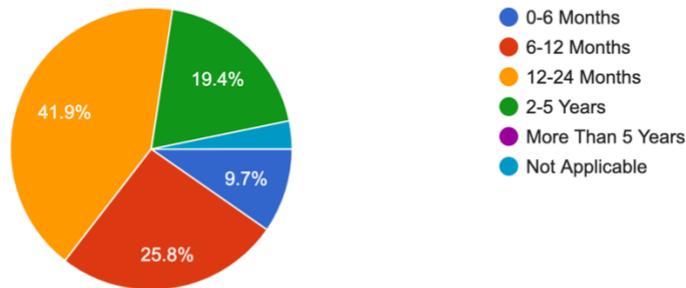
31 responses



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What is the average timeframe that your tenants believe is needed before their finances/business is able to recover from the COVID-19 pandemic?

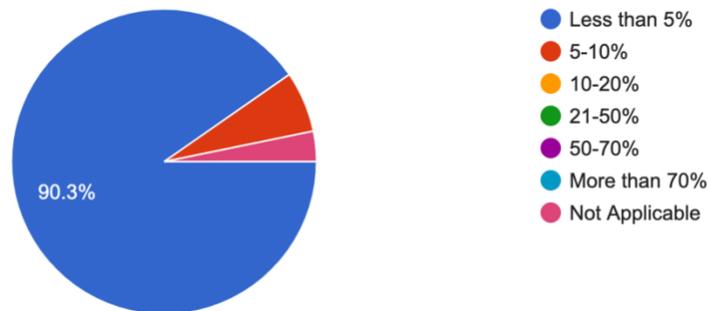
31 responses



RENT QUESTIONS

Prior to the COVID-19 pandemic, what was the average monthly percentage of tenants who missed or were unable to pay in full their rent payment?

31 responses

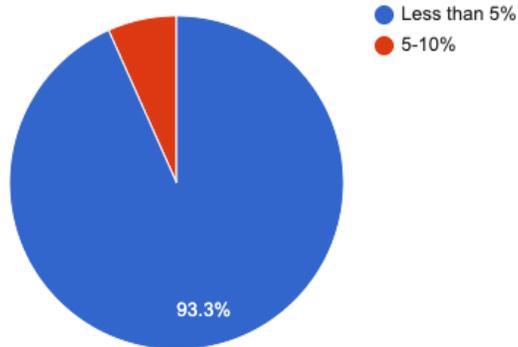


Not Applicable: 1 response

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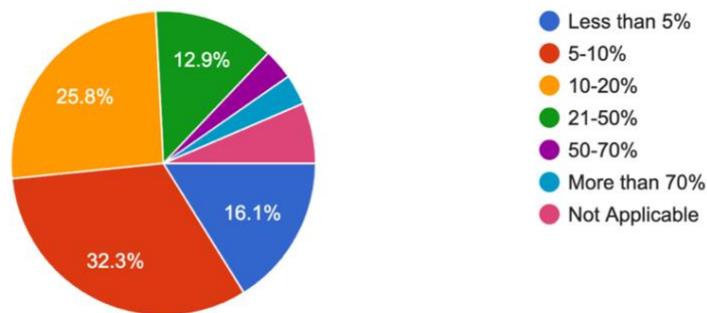
Adjusted pie graph reflecting responses from participants who did not answer 'not applicable'.

Prior to the COVID-19 pandemic, what was the average monthly percentage of tenants who missed or were unable to pay in full their rent payment?



What is the percentage of tenants who have missed or were unable to pay in full their June rent payment?

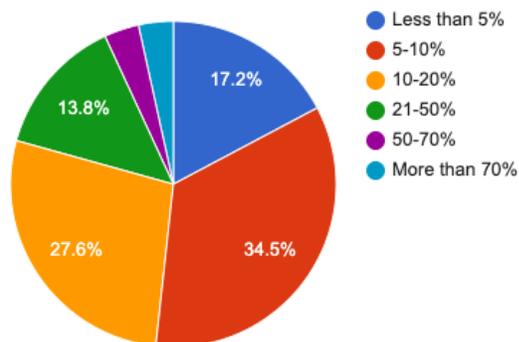
31 responses



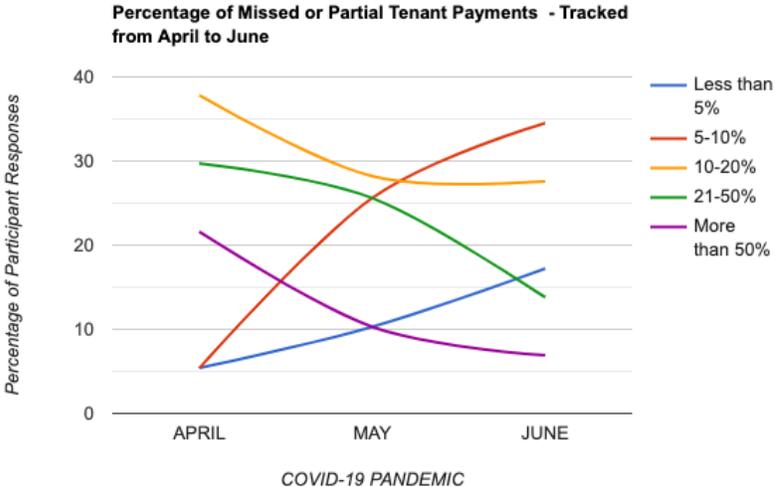
Not Applicable: 2 responses

Adjusted pie graph reflecting responses from participants who did not answer 'not applicable'.

What is the percentage of tenants who have missed or were unable to pay in full their June rent payment?

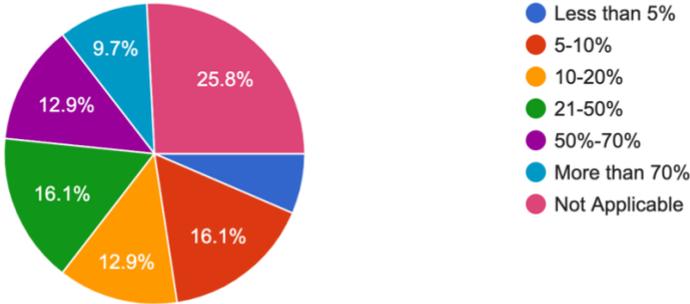


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What is the percentage of RETAIL tenants who have missed or were unable to pay in full their June rent payment?

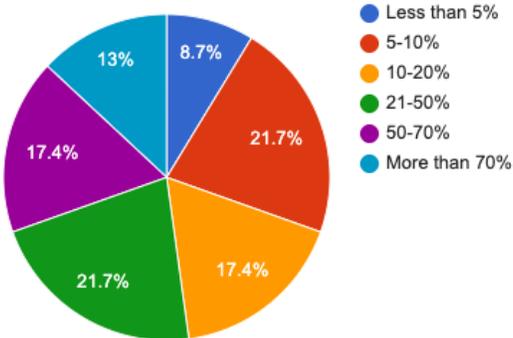
31 responses



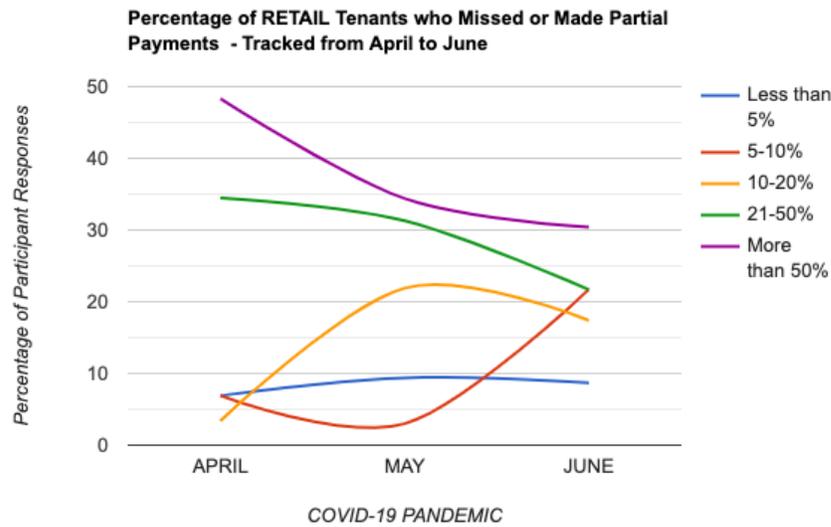
Not Applicable: 8 responses

Adjusted pie graph reflecting responses from participants with RETAIL leased space.

What is the percentage of RETAIL tenants who have missed or were unable to pay in full their June rent payment?

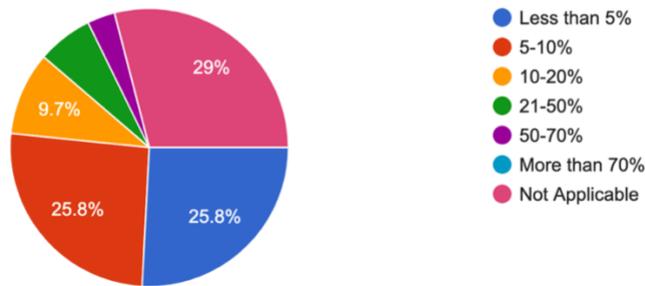


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What is the percentage of OFFICE tenants who have missed or were unable to pay in full their June rent payment?

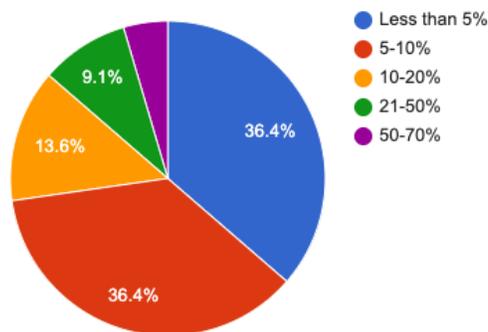
31 responses



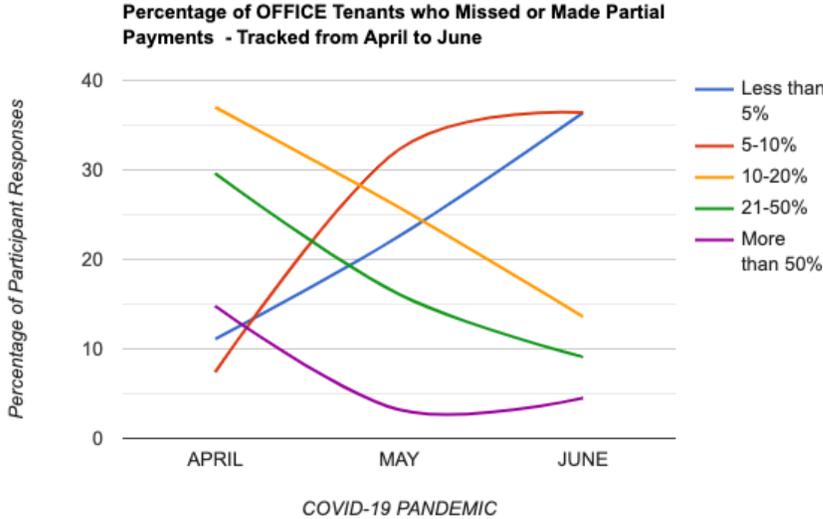
Not Applicable: 9 responses

Adjusted pie graph reflecting responses from participants with OFFICE leased space.

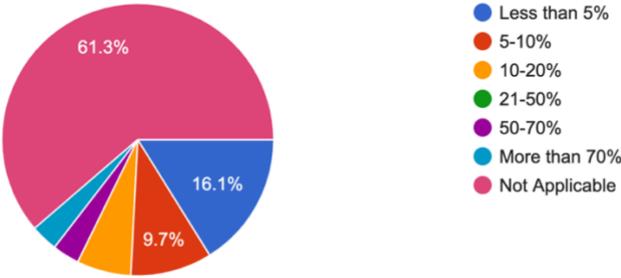
What is the percentage of OFFICE tenants who have missed or were unable to pay in full their June rent payment?



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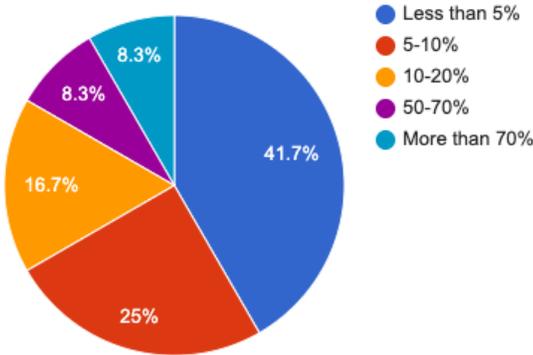
What is the percentage of INDUSTRIAL tenants who have missed or were unable to pay in full their June rent payment?
31 responses



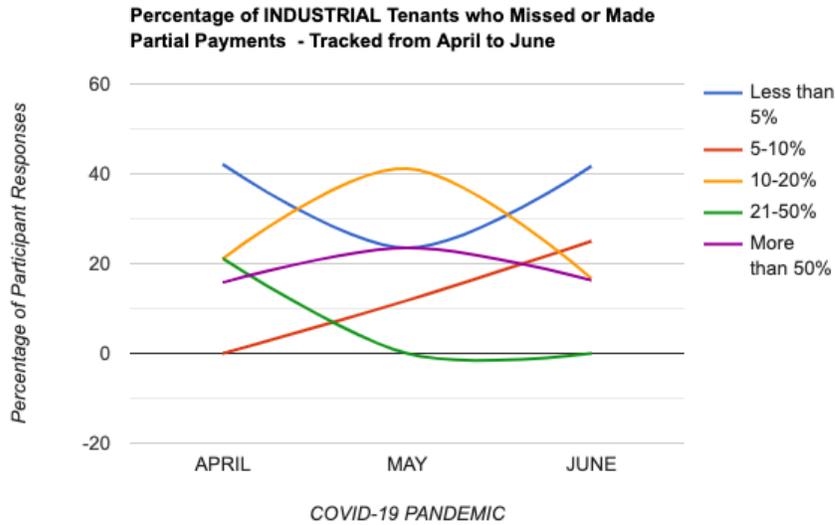
Not Applicable: 19 responses

Adjusted pie graph reflecting responses from participants with INDUSTRIAL leased space.

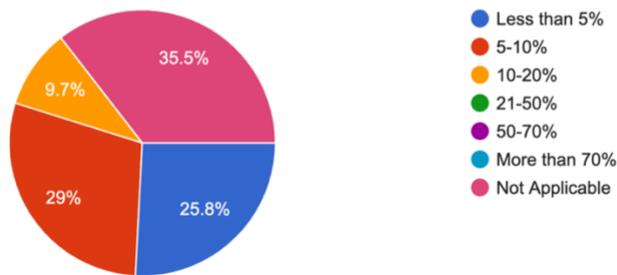
What is the percentage of INDUSTRIAL tenants who have missed or were unable to pay in full their June rent payment?



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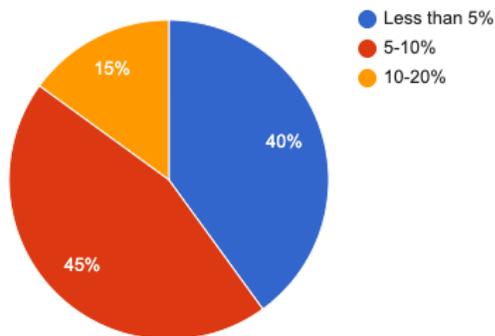
What is the percentage of RESIDENTIAL tenants who have missed or were unable to pay in full their June rent payment?
31 responses



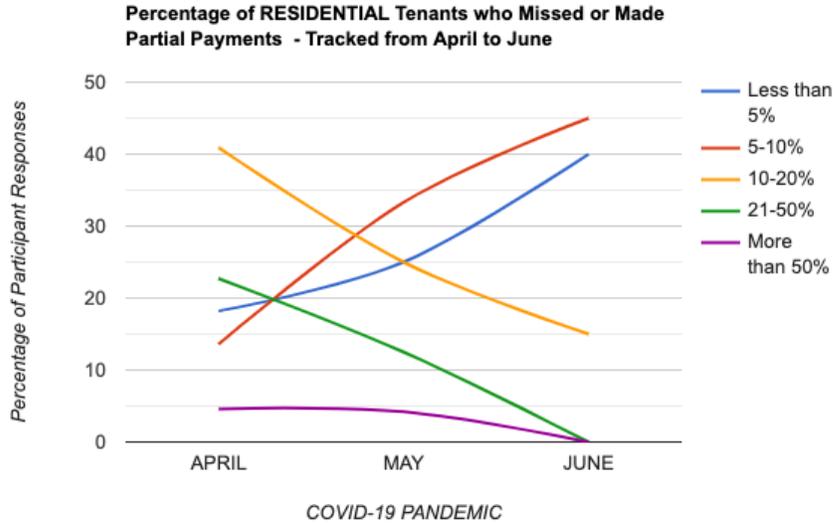
Not Applicable: 11 responses

Adjusted pie graph reflecting responses from participants with RESIDENTIAL units.

What is the percentage of RESIDENTIAL tenants who have missed or were unable to pay in full their June rent payment?

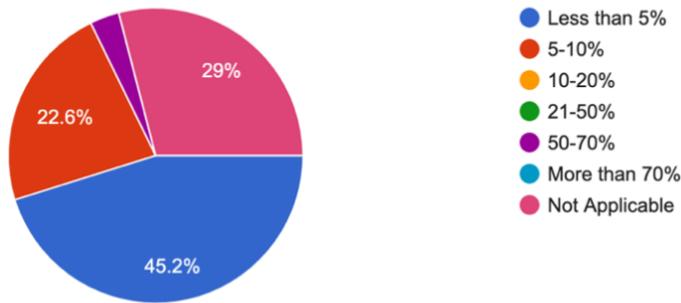


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What is the percentage of tenants who have issued notice that their business will close as a result of the COVID-19 pandemic?

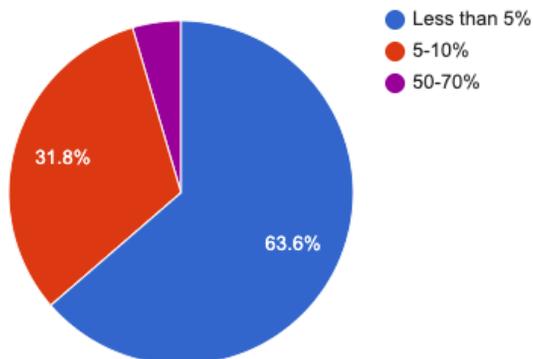
31 responses



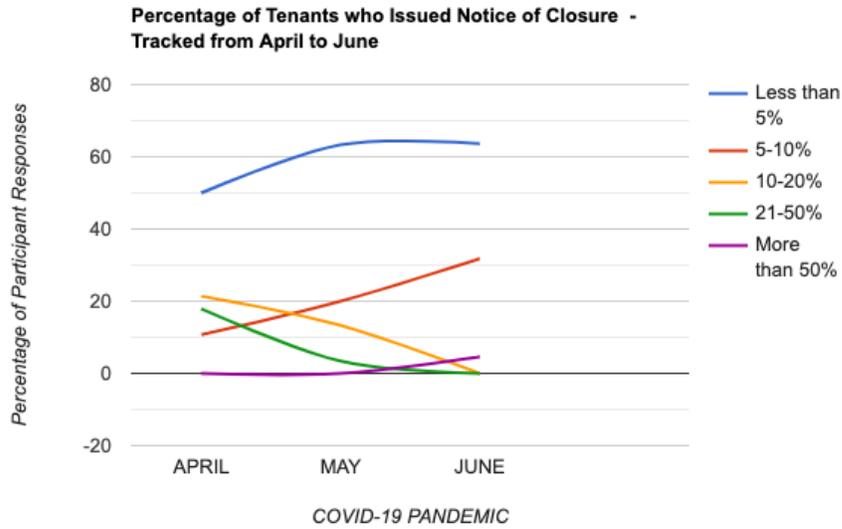
Not Applicable: 9 responses

Adjusted pie graph reflecting responses from participants with business tenants.

What is the percentage of tenants who have issued notice that their business will close as a result of the COVID-19 pandemic?

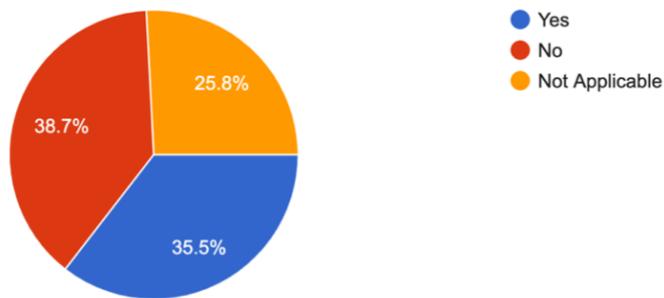


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Have your lenders provided guidance/parameters to allow you to assist your tenants who are unable to pay June rent?

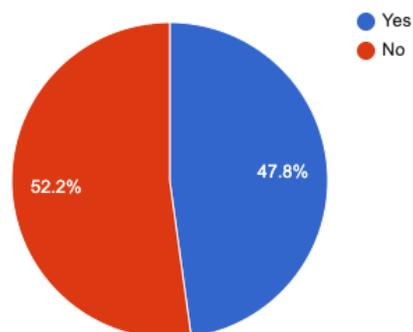
31 responses



Not Applicable: 8 responses

Adjusted pie graph reflecting responses from participants who did not answer 'not applicable'.

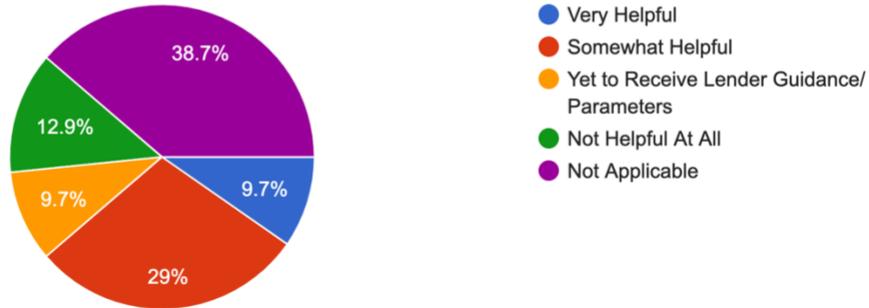
Have your lenders provided guidance/parameters to allow you to assist your tenants who are unable to pay June rent?



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How would you describe the guidance/parameters lenders provided to allow you to assist your tenants who are unable to pay June rent?

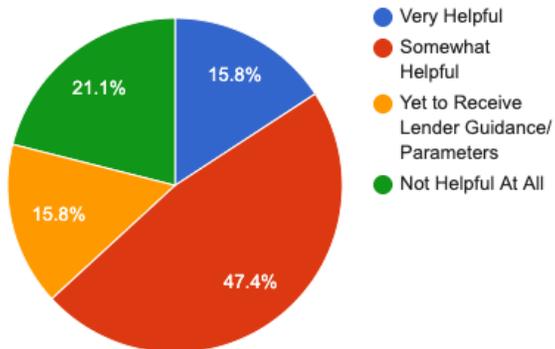
31 responses



Not Applicable: 12 responses

Adjusted pie graph reflecting responses from participants where lender guidance/parameters was applicable.

How would you describe the guidance/parameters lenders provided to allow you to assist your tenants who are unable to pay June rent?



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CONCLUSION

With Long Island's real estate industry continuing to serve as a strategic anchor for the region's economy, June's survey reveals that COVID-19 continues to negatively impact our industry as virtually all participants anticipate a loss of revenue for the third quarter of 2020 as well as foreseeing a decrease in revenue for 2020. As we enter the third fiscal quarter, over a third of the participants anticipate a 20% decrease in revenue or higher for the quarter and approximately the same percentage of participants anticipate revenue losses greater than 20% when 2020 comes to a close.

Q3 losses but a surprising uptick in confidence

With the pandemic now past 100 days, the economic outlook appears to be clearer. Over half of the participants now anticipate a modest profit in 2020, despite revenue shortfalls, while less than twenty percent anticipate a loss in 2020. Almost 30% of participants believe the full impact of the pandemic has yet to be revealed.

These findings are a significant change from prior survey results in April when less than 20% of participants anticipated being in the black at the end of 2020, while 30% anticipated a loss, and approximately 55% of participants thought it was too soon to forecast how they would close their books.

In addition to signs that the economic pain may be somewhat less, the projected recovery timeline is being reduced. Almost half of survey participants believe the economy will now need 12-to-24 months to fully recover from COVID-19, while nearly 26% project a 6-to-12 month timeline. In May, almost 50% of responders indicated a 2-to-5 year recovery period. In June only 22.6% of responders felt the recovery would take longer than two years.

The tenants' projections

Over 41% of tenants have informed their property owner that he or she will require 12-to-24 months for their business to recover. The survey also found that there was a 10% increase in the number of tenants who anticipate their business will need 2-to-5 years to recover.

June's survey repeated May's results, suggesting that businesses are somewhat more optimistic in surviving the COVID-19 economic shutdown. In April, only 50% of participants indicated that less than 5% of their tenants issued notice that their business will close as a result of the pandemic. In May and June, 63% of participants indicated that less than 5% of their tenants issued notice that their business will close as a result of the pandemic.

More importantly, the June results show that the higher thresholds, 10-20% and 20-50%, dramatically decreased to almost zero, further indicating more businesses have a more positive outlook than in April.

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A possible recovery signal

Prior to the COVID-19 pandemic, less than seven percent of all tenants missed or were unable to pay their rent in full.

June 1st, ten weeks into the pandemic shutdown, when tenants faced their third rent payment, the survey suggested economic hope had emerged as New York Governor Andrew Cuomo initiated the reopening of our economy.

June's results trended upward as over 75% of participants experienced payment of rent from 80% or more of their tenants. Furthermore, over 50% of participants experienced payment of rent from 90% or more of their tenants. These findings offer a dramatic improvement when compared to April's results when the majority of participants experienced nonpayment of rent from at least 20% of their tenants and almost 20% of participants experienced nonpayment of rent from more than 50% of their tenants.

Retail regains a pulse

As reported in our prior surveys, the **retail real estate sector** had been impacted most. Almost 35% the participants who lease retail space experienced nonpayment of May rent from more than half their tenants. In June, that number only slightly decreased, as 30.4% of the participants who lease retail space experienced nonpayment of June rent from more than half their tenants.

While that data is concerning, the June's survey provided some positive news. Approximately 21% of participants who lease retail space experienced 20%-50% of their tenants not making June's rent payment. That is a 10% decline in nonpayment compared to May. In addition, almost 50% of retail property owners are receiving rent payments from at least 80% of their tenants, compared to May, where only approximately 35%, and April, where a dismal less than 20% of participants received rent payments from at least 80% of their tenants. Overall, the June retail results demonstrate a decline in nonpayment of rent.

Commercial strength and Industrial resiliency

In June, the **commercial office real estate sector** continued to show strength as nonpayment of rent significantly declined. Almost 75% of commercial owners received rent from 90% or more of their tenants. 36% of participants received rent from 95% or more of their tenants. In comparison, in May, a little more than 56% of participants experienced better than 90% of payment of rent and in April, only 18.5% of participants experienced better than 90% of payment of rent in April.

Throughout the shutdown, the **industrial real estate sector** remains significantly less impacted. In June, two thirds of participants received rent payments from at least 90% of their tenants, and almost 85% of participants received rent from at least 80% of their tenants. In May, 24% of participants remained at pre-pandemic rent collection rates. In June, 41.7% of participants met pre-pandemic rent collection rates.

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The rate of commercial payment of rent continued to increase ten weeks into economic shutdown and even the most impacted sector, retail, was beginning to trend slightly upward. Furthermore, property owners decreased their anticipated recovery timeline from 2-to-5 years in May, to 12-to-24 months in June.

Federal assistance, particularly the U.S. Small Business Administration programs, have helped businesses survive during New York State's economic shutdown. Additionally, that assistance provided tenants a clearer appreciation of their individual fiscal situation. Most importantly, property owners continue to work with their tenants to provide the flexibility to make rent payments during the economic shutdown, recognizing a shared commitment to create a viable pathway going forward.

Residential recovery

Despite New York State extending the moratorium on evictions, and public campaigns for a rent strike, Long Island's **residential real estate sector** is close to returning to pre-pandemic numbers. In June, 85% percent of the survey participants who lease residential units received rent from 90% or more of their tenants. More impressive, 100% of participants received rent payments from at least 80% of their tenants and 40% of participants now experience the same rent payment percentage as pre-pandemic. Those findings reflect a 15% increase from May's results.

Based on the results of this monthly survey, indicating that the Long Island residential sector is on the cusp of returning to pre-pandemic numbers, there will be much debate in Albany over whether government should consider blanket rent forgiveness policies when landlords are seeing the vast majority of their residential tenants continue to make rent payments while businesses are in the throes of phased reopening that, in turn, allows them to welcome back employees.

The lenders

As property owners work with their tenants who may not be able to afford rent, they must also adhere to guidance from their lenders to avoid default.

A lender can offer guidance/parameters that could provide the property owner flexibility in lease negotiations to help save a tenant's business. In June, 52% of the participants had yet to receive guidance/parameters from their lenders. Among the 48% of participants who did receive guidance from their lender, over 62% of the participants found this to be "somewhat helpful" to "very helpful." That's an almost 20% increase from May's results.

Summary

Real estate lies at the center of the Long Island economy. It produces vital tax and fee revenues, generates enormous investment, provides construction and long-term jobs, and is the structure that accommodates every facet of the bi-county region's economic ecosystem.

The current trends revealed in this survey are cautiously positive, but it depends on a virus that is anything but predictable and the ability of the population to observe and sustain CDC protocols.

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The continual upward trend is partially credited to the federal assistance, specifically the U.S. Small Business Administration programs, the property owner's flexibility to work with the tenants and New York State's leadership through the pandemic. The recent passage of the Paycheck Protection Program Flexibility Act of 2020, further assists businesses, specifically with their ability to pay rent by increasing the limitation of PPP funds on non-payroll expenses from 25 percent to 40 percent. In addition, the demand for PPP funds has ceased, therefore it is reasonable to assume that businesses who needed funding received them. Since the economic shutdown, property owners worked with their tenants as well as sought flexibility from their lenders to help ensure businesses survive. Lastly, New York State's "flattening of the curve" has provided some optimism that may entice business owners to continue operations. These three efforts contributed to our region's current economic trends.

While the residential sector seems close to a recovery, we must continue to monitor the unemployment numbers that may be fictitiously inflated as many workers are earning more unemployed as a result of the federal government's unemployment supplemental checks. Should the federal government discontinue the supplemental check program, it will be critical for those individuals to be able to return to their former positions. The program is set to sunset at the end of July unless Congress extends the program.

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Report Written By:

Kyle Strober