

COVID-19 Economic Impact Survey

APRIL 2020

Introduction

The full extent of the economic impact from COVID-19 has yet to be revealed but the region's collective leadership in public and private sectors recognize it will be significant, sustained, and painfully historic.

As the leading advocates of the region's economic development community, and whose members combine to form the region's largest taxpayer, the Association for a Better Long Island ("ABLI") and Long Island Builders Institute ("LIBI") have undertaken a monthly COVID-19 Long Island Economic Impact Survey to provide its membership, and region, with insight into the nature of COVID-19's economic impact and to identify a pathway that encourages recovery.

With Long Island playing a crucial role in New York's economy, particular emphasis needs to be placed on a region of 2.7 million people whose economic landscape is now unrecognizable. At the end of 2018, Long Island GDP was \$162.9B, which would put it above 13 states in the union.

Drawing from real estate leaders

The survey was undertaken by the 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

This month, ABLI and LIBI invited 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. The date of April 14th was strategically selected so its members would have an accurate account of rent payments during the first full month of the pandemic shutdown. The survey was open for seven days, closing on April 21, 2020.

It will reoccur each month to track Long Island economic data during and after the COVID-19 pandemic.

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A significant cross section representing tens of millions of square footage

The survey received forty-one responses. Combined, those participants represent 61,358,000 leased square feet and 32,718 residential units.

The average participant represents 884 residential units and 1,573,282 leased square feet.

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."

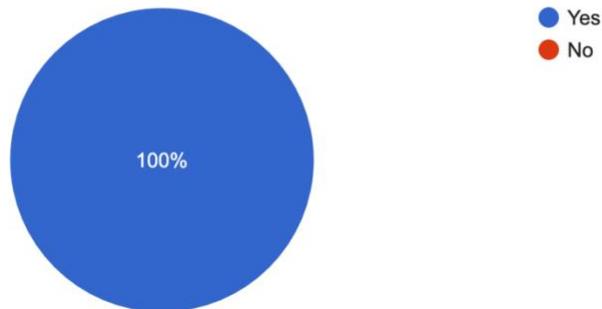
The pie graphs for those specific rent sector questions were adjusted to reflect the responses from the universe of participants. In addition, some participants were required to answer "not applicable" regarding revenue projections due to their public REIT status.

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GENERAL QUESTIONS

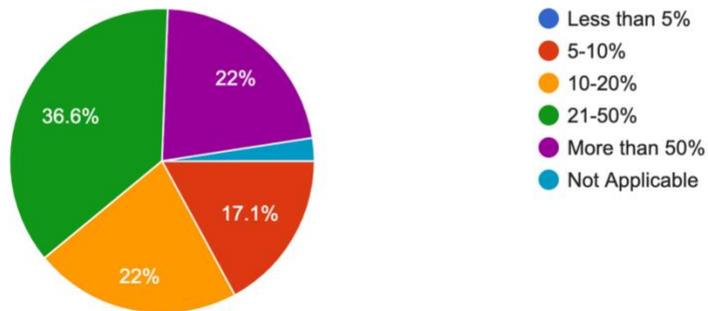
Are you projecting a decrease in revenue in the second quarter of 2020?

41 responses



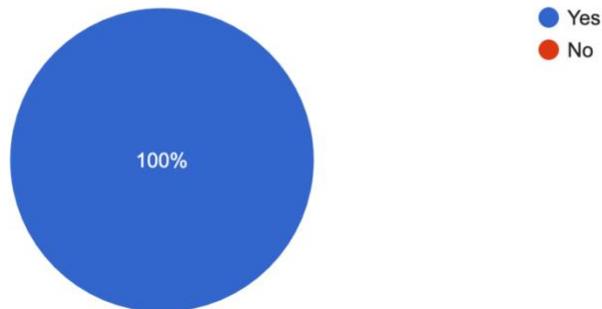
If yes, by how much?

41 responses



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

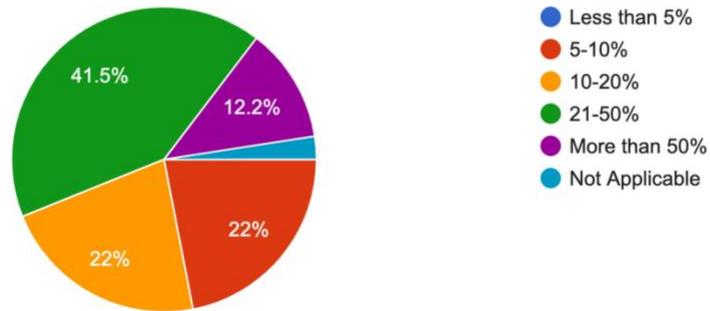
41 responses



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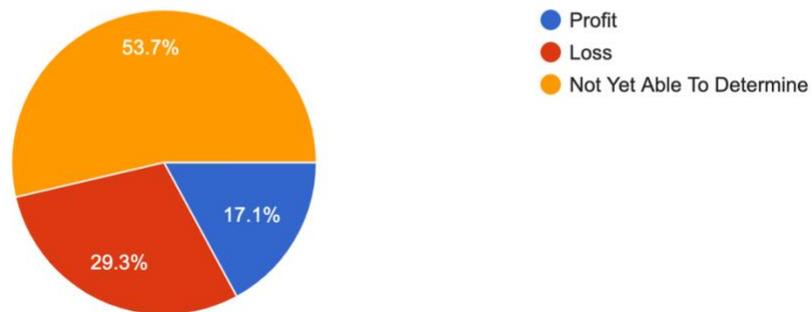
If yes, by how much?

41 responses



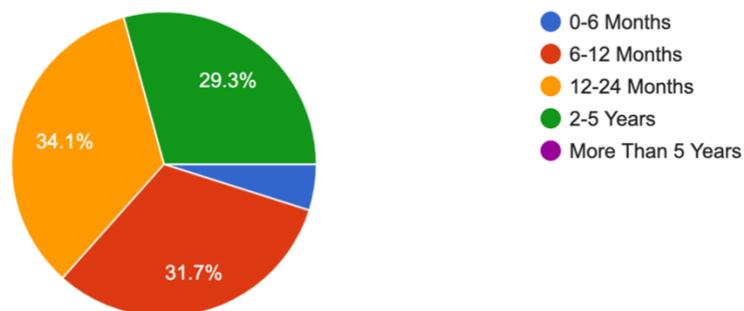
Do you expect to make a profit in 2020 or experience a loss?

41 responses



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

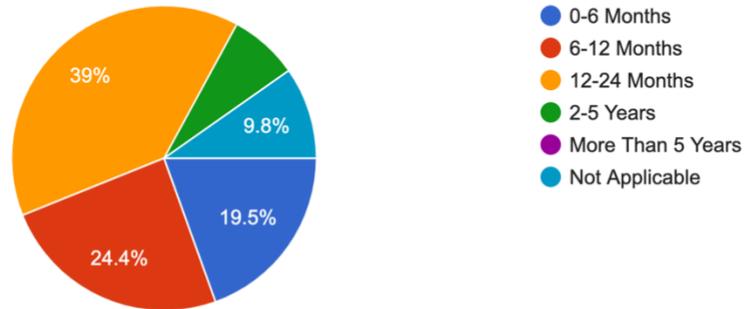
41 responses



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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?

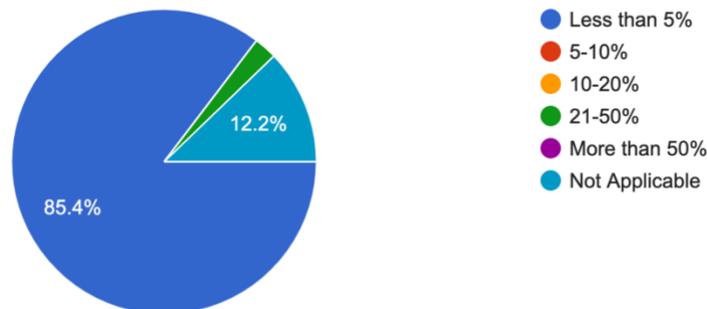
41 responses



RENT QUESTIONS

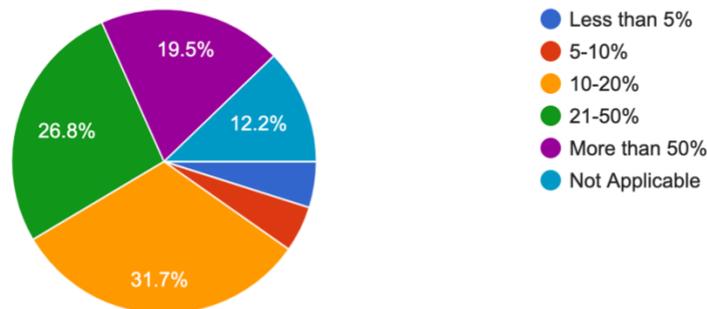
Prior to the COVID-19 pandemic, what was the average monthly percentage of tenants who missed or were unable to pay in full their rent payment?

41 responses



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

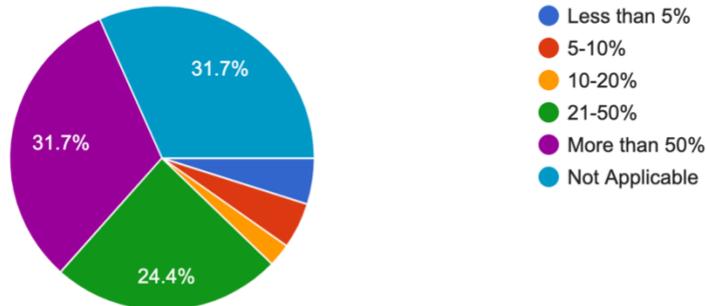
41 responses



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

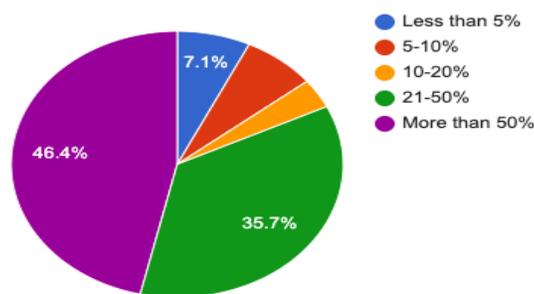
41 responses



Not Applicable: 13 responses

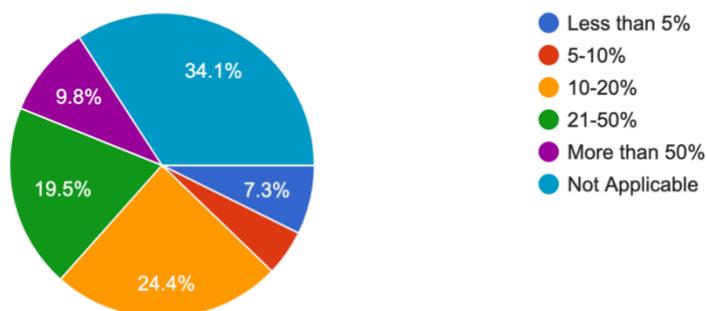
Adjusted pie graph reflecting responses from participants with RETAIL leased space.

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



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

41 responses

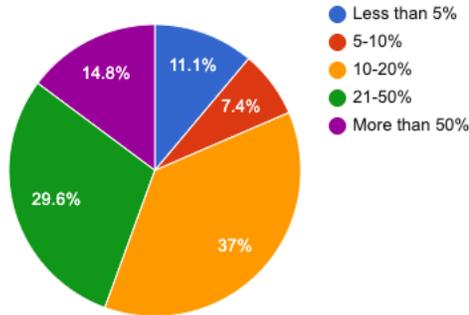


Not Applicable: 14 responses

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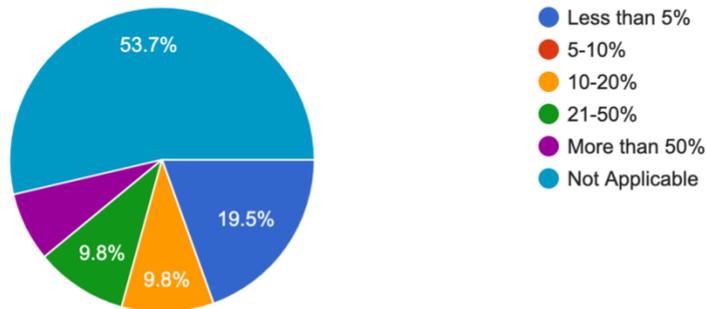
Adjusted pie graph reflecting responses from participants with OFFICE leased space.

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



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

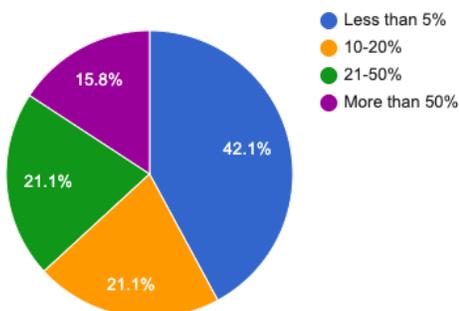
41 responses



Not Applicable: 22 responses

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

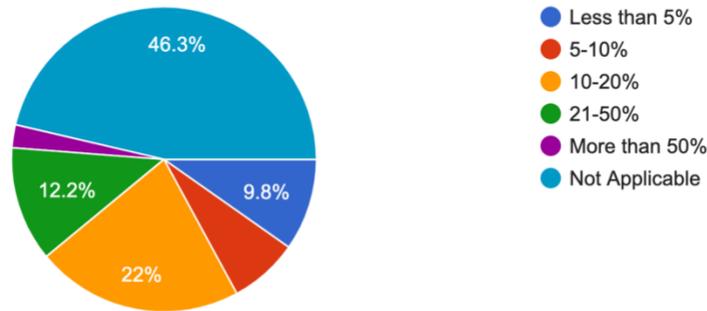
What is the percentage of INDUSTRIAL tenants who have missed or were unable to pay in full their April rent payment?



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

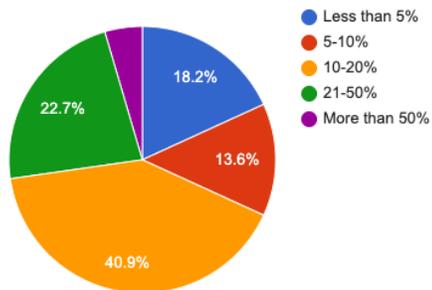
41 responses



Not Applicable: 19 responses

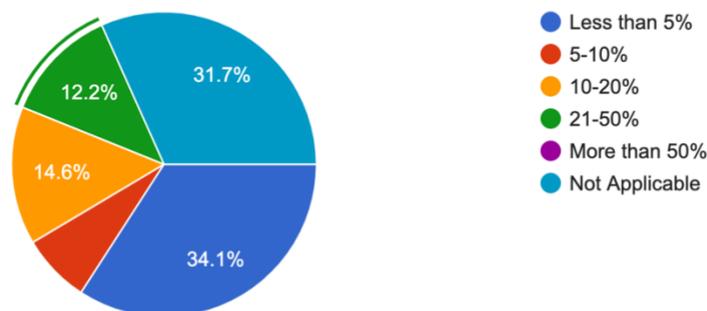
Adjusted pie graph reflecting responses from participants with RESIDENTIAL units.

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



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

41 responses

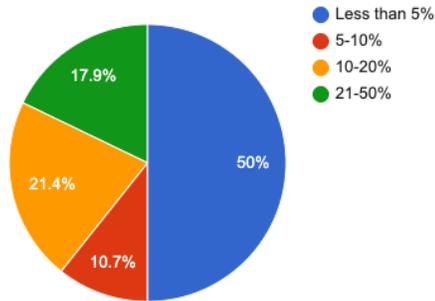


Not Applicable: 13 responses

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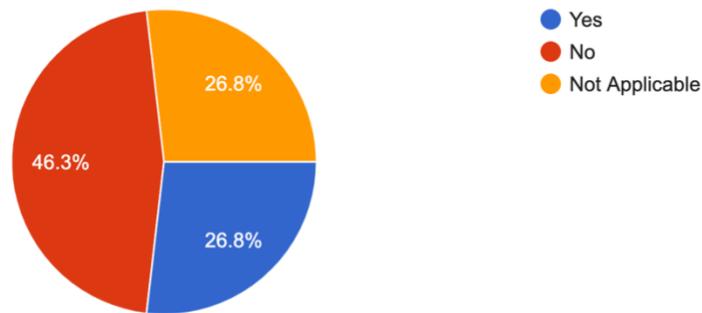
Adjusted pie graph reflecting responses from participants with business tenants.

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



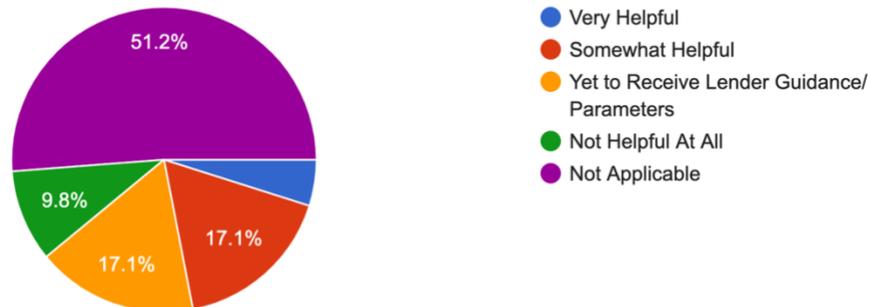
Have your lenders provided guidance/parameters to allow you to assist your tenants who are unable to pay April rent?

41 responses



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

41 responses

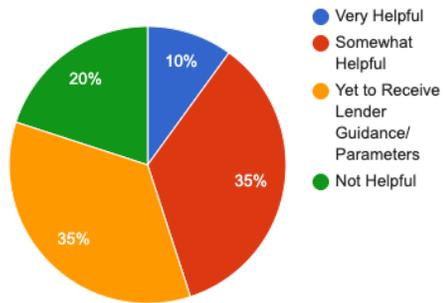


Not Applicable: 21 responses

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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 April rent?



PARTICIPANT COMMENTS

“We are offering work-out plans to all tenants affected that will extend past the current foreclosure moratorium as needed. Some tenants, even though they have sufficient continuing income to pay some rent, have stopped paying any rent as they view the situation to be a free pass for 4 to 6 months before they will be evicted. Another unexpected situation is that tenants who are having problems with other tenants, fights, abuse, hostilities, etc., have no redress! We advise them to call the police but they tell us the police advise that it is a civil matter. In the past, we would investigate and file eviction proceedings against misfeasors for lease violations where warranted but for the indefinite future that is an idle, if not laughable, threat.”

“For April we have about 20% of revenue coming in but come May this will drop to less than 4%. On the office side of the equation I'm experiencing about 80% of income but I believe this will taper off the longer the shutdown occurs.”

“Most if not all bank lenders have given some relief which we are passing on to tenants but insurance company mortgage lenders are being extremely difficult and not as of yet offered any meaningful relief”

“Institutional lenders helpful , secondary lenders and mezz loan lenders not helpful”

“Not clear which tenants may not be able to reopen when this ends. Over 85% of retail tenants closed, most not paying any rent, taxes or other charges. Some lenders are willing to discuss, some lenders not responding to requests at this time.”

“We collected approximately 35% of rent without any reduction in expenses including mortgage, taxes, insurance and maintaining the shopping centers.”

“Everyone is focusing on April...but May and June will equally be an issue...and potentially worse.”

“Our bigger concern is what happens around June. Things may deteriorate further starting in May. We are in discussion with our lenders to be prepared for those companies that are anticipating real weakness to get through the summer. Quite a bit will depend upon how the government orchestrates a re-opening.”

“We will experience deteriorating results in May and June.”

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CONCLUSION

With 100% of the participants indicating a loss of revenue in the second quarter of 2020, and foreseeing a decrease in revenue for 2020, the COVID-19 economic impact is real and fierce. In 2020, more than half the participants already anticipate revenue losses greater than twenty percent while twelve percent are forecasting revenue losses greater than fifty percent.

The majority of survey participants believe the economy will need at least 12-24 months to fully recover from COVID-19, while thirty percent of participants project a 2-5 year timeline. Almost 75% of tenants have informed their property owner that he or she will need at least 6-12 months or longer for their business to recover.

The timeline for economic descent

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

In mid-March, New York Governor Andrew Cuomo issued an Executive Order requiring all non-essential businesses to close and their employees should work from home as part of a sweeping COVID-19 containment strategy.

April 1, 2020 was the first rent payment date to face tenants since the economic shutdown was implemented. The results demonstrate a spike in nonpayment of rent for April. Some 20 percent of real estate survey participants found that more than fifty percent of their tenants did not pay April rent. A quarter of participants experienced between 20%-50% of their tenants not paying rent.

Retail faces an existential threat

Without question the retail real estate sector has been impacted the most. Almost half the participants who lease retail space experienced nonpayment of April rent from more than half their tenants. More than 35% of participants who lease retail space experienced 20%-50% of their tenants not making April's rent payment.

The next hardest hit real estate sector was commercial office space. Thirty percent of participants experienced nonpayment of rent from 21-50% of their tenants, while fifteen percent of survey participants saw more than 50% of their tenants miss April's rent.

The Industrial sector was significantly less impacted but certainly not immune to the economic aftershocks of the COVID-19 virus. Forty-two percent of participants remained at pre-pandemic rent collection rates of 95% or greater.

Providing insight into what lies ahead, thirty days into the pandemic induced economic shutdown, eighteen percent of real estate participants are facing the prospect of 21% to 50% of their tenants go out of business.

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Residential report card

While there was an Executive Order forbidding evictions for 90 days and some public confusion on whether the State issued rent forgiveness, the residential sector was less impacted than other sectors. Seventy-five percent of the survey participants who lease residential units received rent from 80% or more of their tenants. Almost twenty percent of participants experienced the same rent payment percentage as pre-pandemic.

The lenders

As property owners work with their tenants who may not be able to afford rent, they must adhere to guidance from their lender to avoid default. A lender can provide guidance/parameters that could provide the property owner flexibility in lease negotiations to help to save a tenant's business. Almost half of the participants have yet to be given guidance/parameters from their lenders. On a positive note, among those who did receive guidance from their lender, more than half the participants found this to be "somewhat helpful" to "very helpful."

A roadmap to recovery

Real estate lies at the center of the Long Island economy. It produces vital tax 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 eco-system.

The current hemorrhaging revealed in this survey is unsustainable if Long Island is expected to recover within this decade. Without government engagement and advocacy on a federal, state, and local level, this key sector will wither, eroding the foundation required for recovery. These findings may be a current "snapshot" of market conditions but they also provide strategic insight into our future, thereby allowing us to change its trajectory for the better.

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Report Written By:

Kyle Strober