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LONG ISLAND'S ECONOMIC DEVELOPMENT COMMUNITY NOW PROJECTING WORRISOME 2 TO 5 YEAR ECONOMIC RECOVERY TIMELINE

Residential Rent Payments Remain Steady, 83% of Property Owners See At Least 80% Rent Payments in May; Rent Payments Stronger in May than April

ABLI LIBI: While May's data provides a shimmer of hope, without additional government assistance all real estate sectors could crumble

(Hauppauge, N.Y.) – The May survey of real estate companies that own and manage tens of billions of dollars of Long Island real estate reveals that the economic recovery timeline from the COVID-19 pandemic will be significantly longer than previously anticipated, projecting a worrisome 2 to 5 years before the region returns to pre-pandemic health.

Almost half of survey participants believe the economy will need at least 2-to-5 years to fully recover from COVID-19, while 32% of participants project a 12-to-24 month timeline. In April, 29% of responses predicted a two to five year recovery period, while 34%, the majority of responses, indicated a 12-to-24 month recovery time line. Over 56% of tenants have informed their property owner that he or she will need at least one to two years, or longer, for their business to recover, compared to 39% in April's survey.

The comprehensive survey is administered by the Association for a Better Long Island ("ABLI") and Long Island Builders Institute ("LIBI"), region's economic development community, whose members combine to form the region's largest taxpayer, to examine the scope of COVID-19's economic impact. May is the second installment of the monthly survey designed to identify issues that will define business strategies and public policy for Long Island's recovery.

<u>An ominous need for red ink</u>

ABLI Executive Director Kyle Strober stated, "This survey reminds us that not only are we not out of the woods but we don't yet have a reliable compass. The residential sector remains strong while the retail sector continues to be balanced on a knife's edge. The counter intuitive increase in May's commercial rent payments must be attributed to businesses obtaining federal COVID-19 assistance, more time for businesses to better understand their fiscal situation and, most importantly, property owners working with their tenants to provide the flexibility to make rent payments during the economic shutdown."

Despite somewhat optimistic signs, virtually all the participants indicated a loss of revenue in the second quarter of 2020, and it was unanimous among the respondents that they foresee a decrease in revenue for 2020, underscoring the devastating economic aftershocks from COVID-19. In May, a little less than half the participants anticipated revenue losses greater than twenty percent in 2020, while ten percent are forecasting revenue losses greater than fifty percent. In April, 29% of participants projected a loss in 2020 while 54% said it was too soon to determine.

LIBI CEO Mitch Pally, observed, "This pandemic is changing the real estate sector in a manner that was unimaginable just ninety days ago. These two surveys reveal where the cracks and fissures are most severe and underscores the need for both public and private sectors to be agile in creating counter strategies to blunt the impact."

Surveying COVID-19's impact on tens of millions of square feet

May's survey received **41 responses**. Combined, those participants **represent 65,743,001, leased square feet and 48,816 residential units**. In comparison, April's survey also received forty-one responses representing 61,358,000 leased square feet and 32,718 residential units. While the number of participants remained the same from April to May, May's survey represents a participant pool of an additional 4.5m in leased square feet and 16,098 residential units.

In May's survey, the average participant **represents 1,191 residential units and 1,603,488 leased square feet**.

Again, virtually every respondent is projecting a decrease in 2020 second quarter revenue with 20% of those surveyed anticipating losing at least half of their earnings.

Retail remains on life support

Without question the retail real estate sector has been impacted the most. Almost 35% the participants who lease retail space experienced nonpayment of May rent from more than half their tenants. That is a 10% decline in nonpayment compared to April. More than 31% of participants who lease retail space experienced 20%-50% of their tenants not making May's rent payment. That is a 4% decline in nonpayment compared to April. The May retail results demonstrate an overall decline in nonpayment of rent.

In April, the next hardest hit real estate sector was commercial office space. In May, nonpayment of rent declined significantly. Only 16% of participants experienced nonpayment of rent from 21-50% of their tenants, compared to 30% in April. More than 75% of participants experienced better than 80% of payment of rent. In comparison, approximately 56% of participants experience better than 80% of payment of rent in April.

The Industrial sector was significantly less impacted, but May results indicate a worrisome sector uptick in rent nonpayment. In April, forty-two percent of participants remained at pre-pandemic rent collection rates of 95% or greater. In May, twenty-four percent of participants remained at pre-pandemic rent collection rates, a decrease of 18%. Additionally, more than twenty-three percent of participants experience nonpayment from 70% or more of its industrial tenants.

The residential sector continues to be far less impacted than other sectors. Over 83% percent of the survey participants who lease residential units received rent from 80% or more of their tenants. That's a ten percent increase from April's results. Almost twenty-five percent of participants now experience the same rent payment percentage as pre-pandemic.

Washington's lifeline

Strober and Pally said that the survey provides insight into what lies ahead. They noted, "Some sixty days into the pandemic induced economic shutdown, the very foundation of the region's economy, real estate, remains under relentless pressure. While the actions of local government to encourage investment and economic activity will be crucial, it will be Washington that determines how, or even whether, we can recover."

Concluded Mr. Strober, "While one might conclude that this data is a positive sign, it is still too early to know. Our real estate sectors are currently being propped up by trillions of dollars in federal funds, provided to businesses in the form of SBA PPP loans and residents in the form of unemployment supplemental checks. This funding sunsets in July, so without additional assistance, there is a definite possibility of a severe drop in rent payments across all real estate sectors."