

COVID-19 Economic Impact Survey

MAY 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, and whose members combine to form the region’s largest taxpayer, has issued its second regional COVID-19 Economic Impact Survey.

The purpose of the survey is 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 and that day was 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 May 21, 2020.

ABLI LIBI COVID-19 Economic Impact Survey – May 2020

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 forty-one 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.

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."

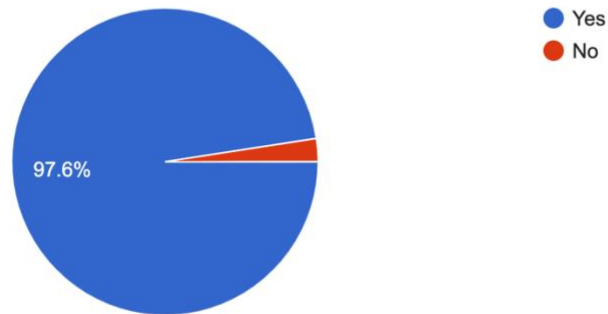
The pie graphs for those specific rent sector questions were adjusted to reflect the responses from the universe of participants. In addition, some participants were required to answer "not applicable" regarding revenue projections due to their public REIT status.

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GENERAL QUESTIONS

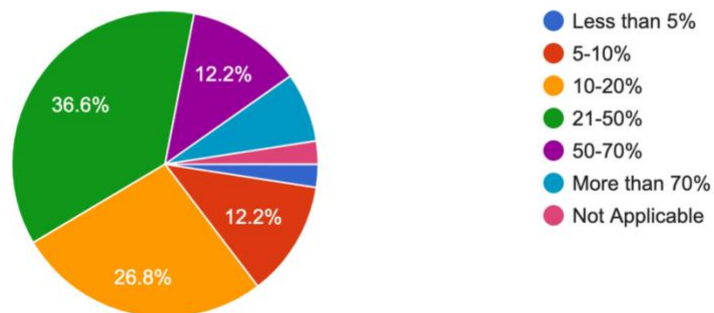
Are you projecting a decrease in revenue in the second quarter of 2020?

41 responses



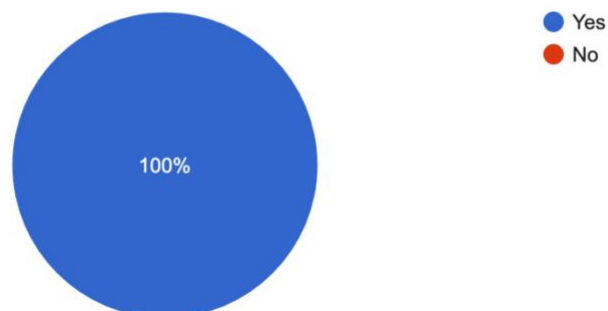
If yes, by how much?

41 responses



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

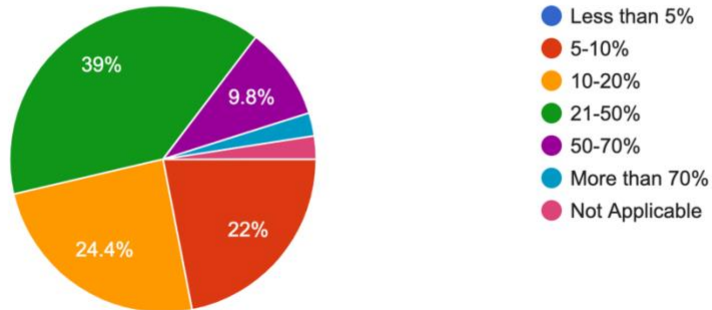
41 responses



ABLI LIBI COVID-19 Economic Impact Survey – May 2020

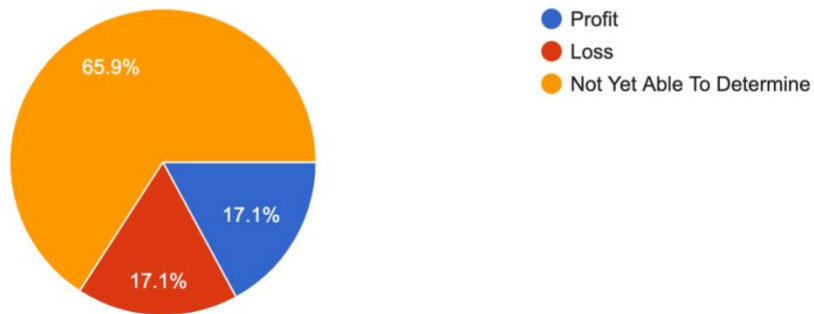
If yes, by how much?

41 responses



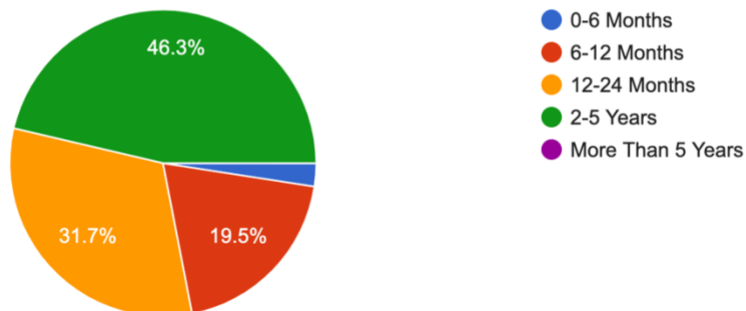
Do you expect to make a profit in 2020 or experience a loss?

41 responses



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

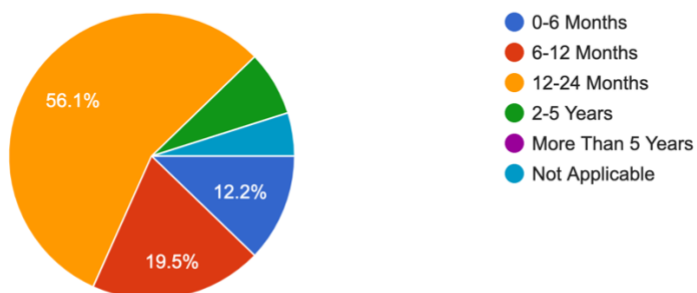
41 responses



ABLI LIBI COVID-19 Economic Impact Survey – May 2020

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

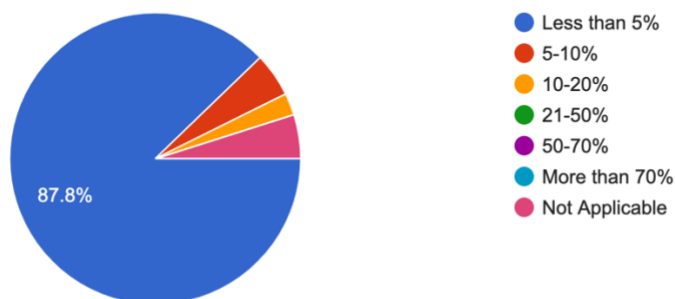
41 responses



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?

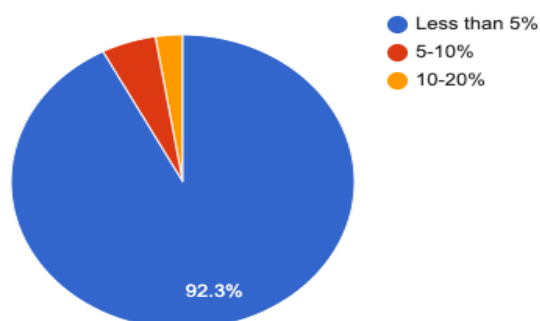
41 responses



Not Applicable: 2 responses

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

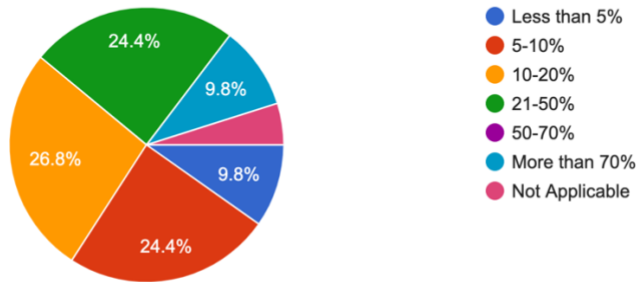
Prior to the COVID-19 pandemic, what was the average monthly percentage of tenants who missed or were unable to pay in full their rent payment?



ABLI LIBI COVID-19 Economic Impact Survey – May 2020

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

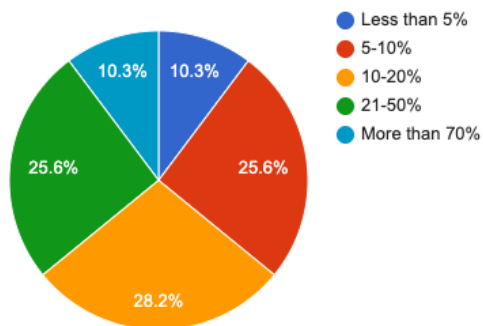
41 responses



Not Applicable: 2 responses

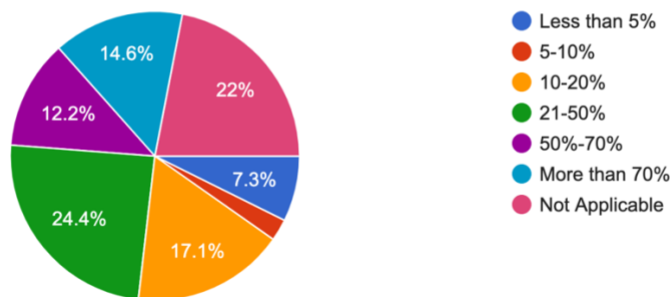
Adjusted pie graph reflecting responses from participants who did not answer 'not applicable'.

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



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

41 responses

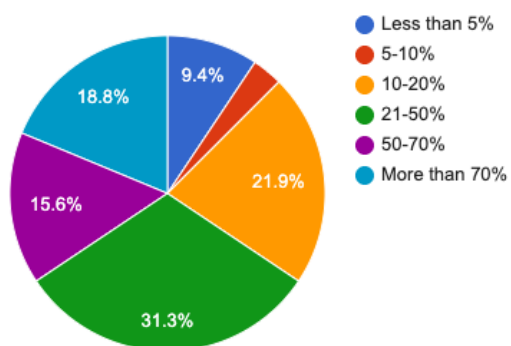


Not Applicable: 9 responses

ABLI LIBI COVID-19 Economic Impact Survey – May 2020

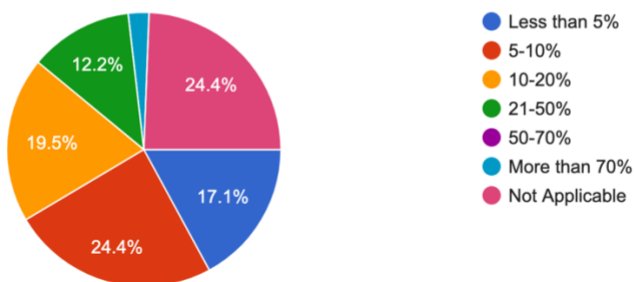
Adjusted pie graph reflecting responses from participants with RETAIL leased space.

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



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

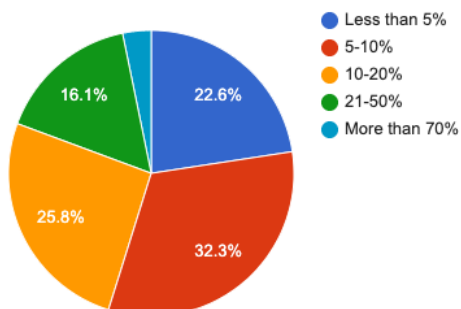
41 responses



Not Applicable: 10 responses

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

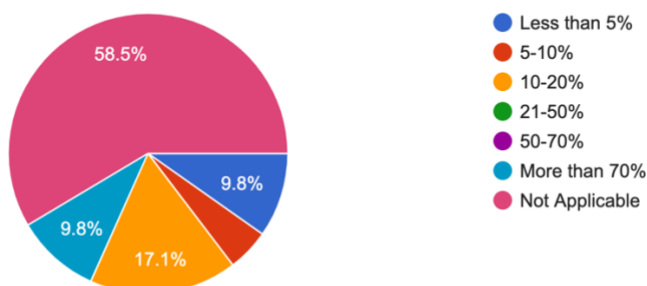
What is the percentage of OFFICE tenants who have missed or were unable to pay in full their May rent payment?



ABLI LIBI COVID-19 Economic Impact Survey – May 2020

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

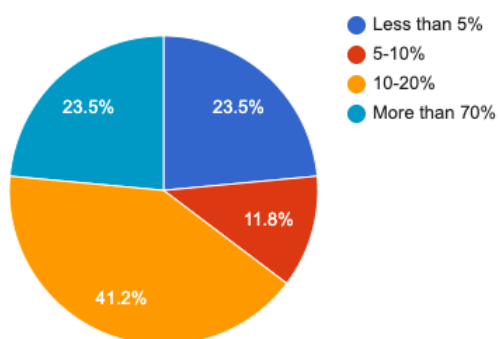
41 responses



Not Applicable: 24 responses

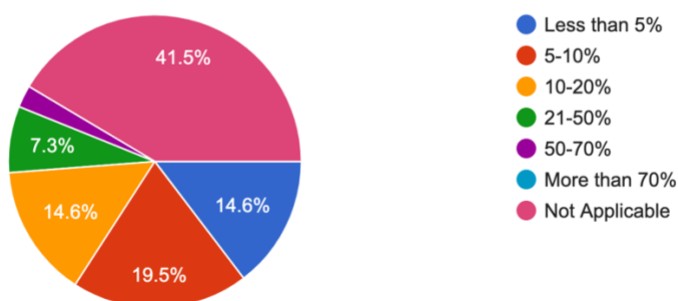
Adjusted pie graph reflecting responses from participants with INDUSTRIAL leased space.

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



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

41 responses

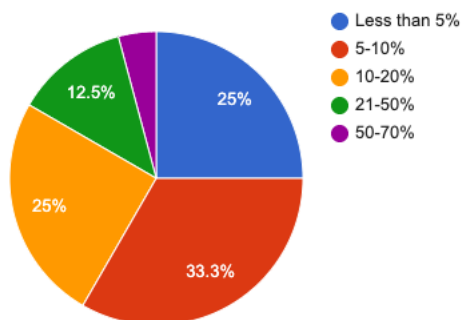


Not Applicable: 17 responses

ABLI LIBI COVID-19 Economic Impact Survey – May 2020

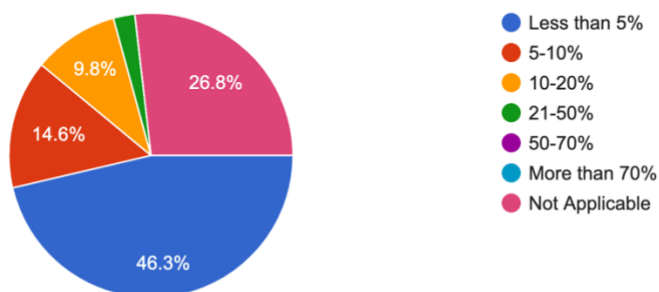
Adjusted pie graph reflecting responses from participants with RESIDENTIAL units.

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

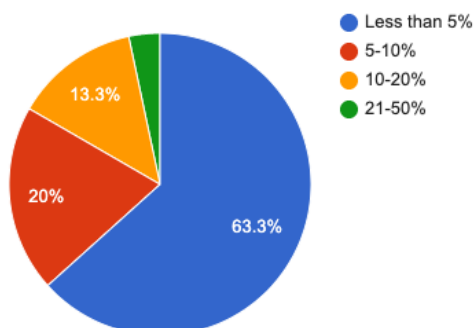
41 responses



Not Applicable: 11 responses

Adjusted pie graph reflecting responses from participants with business tenants.

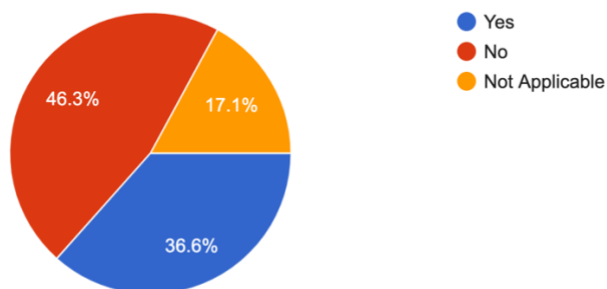
What is the percentage of tenants who have issued notice that their business will close as a result of the COVID-19 pandemic?



ABLI LIBI COVID-19 Economic Impact Survey – May 2020

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

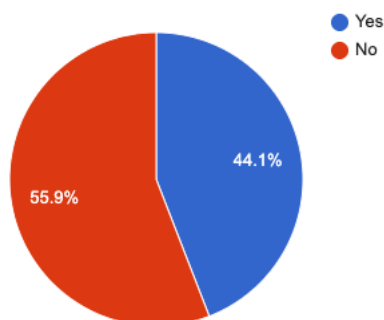
41 responses



Not Applicable: 7 responses

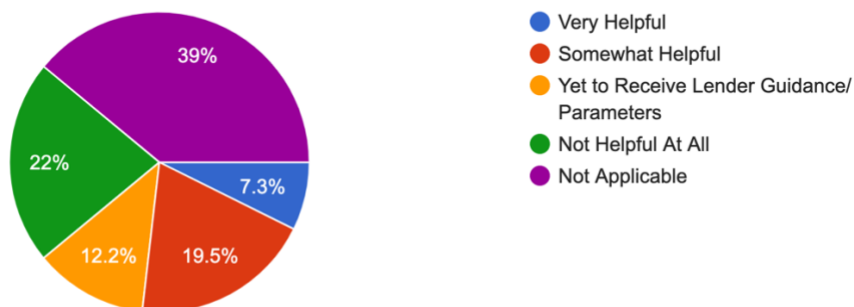
Adjusted pie graph reflecting responses from participants who did not answer 'not applicable'.

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



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

41 responses

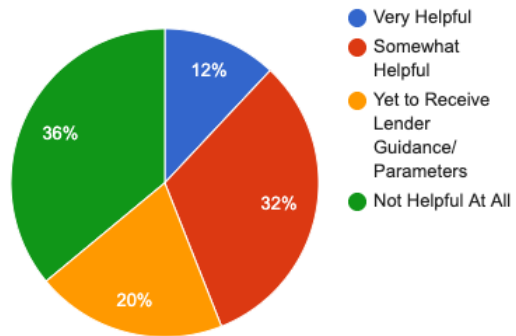


Not Applicable: 16 responses

ABLI LIBI COVID-19 Economic Impact Survey – May 2020

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 May rent?



ABLI LIBI COVID-19 Economic Impact Survey – May2020

CONCLUSION

With again virtually all the participants indicating a loss of revenue in the second quarter of 2020, and 100% foreseeing a decrease in revenue for 2020, the COVID-19 economic impact is real. 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. Four weeks into the economic shutdown, 29% of participants projected a loss in 2020 while 54% said it was too soon to determine.

Eight weeks into the economic shutdown, only 17% of participants now project a definite loss in 2020, while now 66% said it remains too soon to determine. Compared to April's data, May's participant responses are trending towards a slightly more hopeful post pandemic economic outlook.

While the anticipated economic pain may be lessening somewhat, the projected timeline of recovery is being extended. 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 indicated a 2-to-5 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 12-to-24 months or longer for their business to recover, compared to 39% in April's survey.

Thankfully, May's results also suggest that businesses are somewhat more optimistic in surviving the COVID-19 economic shutdown. In April, 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, 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 results show that the higher thresholds, 10-20% and 20-50%, dramatically decreased, further indicating more businesses have a more positive outlook than in April.

With eight weeks into a full economic shutdown and a better understanding of the economic impact, participants foresee a much longer economic recovery than previously anticipated while the depths of the economic impact hasn't shifted as drastically.

Deeper into the economic shutdown

Prior to the COVID-19 pandemic, less than seven 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.

May 1, 2020, six weeks into a NYS shutdown, was the second rent payment date to face tenants since the economic shutdown was implemented. The results continue to demonstrate a spike in nonpayment of rent for May. Ten percent of real estate survey participants found that more than 70% of their tenants did not pay May rent. A quarter of participants experienced between 20%-50% of their tenants not paying rent.

ABLI LIBI COVID-19 Economic Impact Survey – May2020

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 approximately 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 rate of commercial nonpayment of rent is decreasing six weeks into economic shutdown, compared to two weeks into economic shutdown. Despite the decrease, the current levels of rent nonpayment are particularly concerning and unsustainable for property owners should they continue over a projected 2-to-5 year economic recovery timeline. The decline in nonpayment in May could be a result of 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.

Residential remains strong

While there was two consecutive Executive Order forbidding evictions and some public confusion on whether the State issued rent forgiveness, 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.

Based on the results of this monthly survey, indicating that the residential sector remains strong and steady, there will be much debate over whether government should consider blanket rent forgiveness policies when over 80% of residential tenants continue to make rent payments and businesses are beginning a phased reopening that will allow them to welcome back employees.

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

ABLI LBI COVID-19 Economic Impact Survey – May2020

could provide the property owner flexibility in lease negotiations to help to save a tenant's business. In May, almost half of the participants have yet to be given guidance/parameters from their lenders. Those who did receive guidance from their lender, 45% of the participants found this to be "somewhat helpful" to "very helpful."

Washington's lifeline

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 eco-system. The current trends revealed in this survey are positive but unsustainable if Long Island's recovery timeline is expected to take 2-to-5 years.

While this month's data is a positive sign, it must be noted that 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.

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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Mitch Pally, CEO, Long Island Builders Institute

Report Written By:

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