



Update on the Implications of COVID-19 on Your Commercial Lease

Cresa Toronto Inc., Brokerage

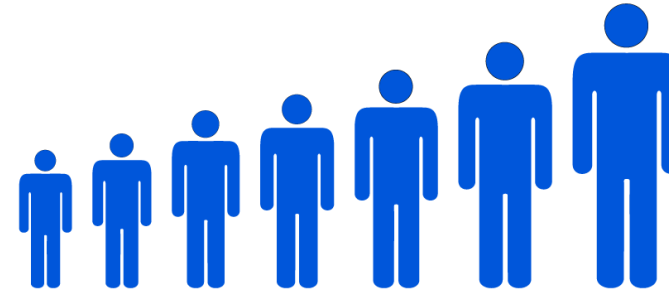
June 4th, 2020



FEI Member Survey Results - 2018

85%

Believed space provided a competitive advantage or kept them competitive against peers



Culture

Brand

Attraction & Retention

FEI Member Survey Results – Post April 20, 2020 – Webinar

Expect an increase in the percentage of employees working from home

93%



62%

Expect a decrease in the average square feet per employee

Expect a decrease in the total SF of leased or owned space

92%

Today's Discussion

- Review - Rent Deferrals & Abatements
- Canada Emergency Commercial Rent Assistance Program (“CECRA”)
- Changes In Leases / Lease Auditing
- Advice for Tenants / Occupiers – Return to Office
- Questions



Initial Landlord Reactions

- Sorry we cannot help
- Look to the government for assistance
- Defer Realty Tax for 2 months
- Let's wait until after April 1, 2020
- We want/need to help, but just not sure how
- If we are going to help we will prioritize those with highest need (Retail)



Shifting Landlord Reactions

- Willingness to defer but not forgive
 - Length of Deferral?
 - Payback Period?
 - Interest Rate?
 - Formality of Contract?
- Landlords seeking access to financial statements and input to Tenant's other cost saving measures
- Negative sentiment towards corporate and multi-national Tenants looking for assistance
- Tenants starting to recognize:
 - A deferral may not be enough
 - Lost revenues are not coming back
 - Abatement or forgiveness maybe required



Canadian Emergency Commercial Rent Assistance Program

On Friday, April 24, 2020, the federal government announced \$900 million in commercial rent relief to small businesses and their landlords through a new Canada Emergency Commercial Rent Assistance (CECRA) program. **The Portal opened Last Week**

The program provides ***forgivable loans to eligible commercial Property owners experiencing potential rent shortfalls*** because their small business tenants have been heavily impacted by the COVID-19 crisis.

The federal government has partnered with all provinces and territories to ***lower rent by 75% for small businesses impacted by COVID-19 for the months of April, May and June.***



How Does the Program Work – Real Examples

Example 1



Industrial Tenant leasing 50,000 SF

\$7.00 Basic Rent + \$4.00 TMI

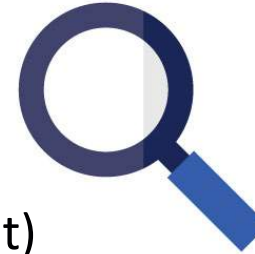


Monthly Rent is \$45,833.33

Landlord forgoes \$11,458.33 (25% of rent)

Tenant is responsible to pay \$11,458.33 (25% of rent)

The government will cover the remaining \$22,916.67 (50% of rent)



Office Tenant leasing 7,500 SF

\$30.00 Net Rent + \$18.00 Additional Rent



Monthly Rent is \$30,000

Landlord forgoes \$7,500 (25% of rent)

Tenant is responsible to pay \$7,500 (25% of rent)

The government will cover the remaining \$15,000 (50% of rent)



Example 2

Step 1. Does the Tenant Qualify?

Pays monthly rent not exceeding \$50,000 in **Gross Rent** per month

A non-essential small business that has:

- Temporarily closed
OR
Is experiencing a 70% drop in Pre COVID-19 revenues
- Compare your revenues in April, May and or June to the same Month in 2019 or alternatively compared to average revenues for January and February 2020
- Not-for-profit organizations and charitable entities would also be considered for the program
- Annual Revenues must not exceed \$20 Million



Step 2: Does the Landlord Qualify

Applies to commercial properties with ***small business tenants***

Commercial properties with a residential component, and residential mixed-use properties with a 30% commercial component, will be equally eligible for support with respect to their commercial tenants

What if the Property does not have a Mortgage?

If a property owner does not have a mortgage secured by a commercial rental property, the property owner should contact CMHC to discuss program options, which may include applying funds against other forms of debt facilities or fixed cost payment obligations (e.g. utilities).



Step 3: Convincing the Landlord to Apply

Program is voluntary for commercial landlords.

Landlords might choose to ignore the program given they are expected to absorb a 25% loss in rent even if Tenants badly need it.

Step 4: Executing the Rent Forgiveness Document

Review and Execute a Rent Forgiveness Agreement

Ensure you are not committing to unwanted lease amendments

The agreement will include a term not to evict the Tenant while the agreement is in place.



This Is A Negotiation Event

Tenants require clear goals and objectives, a sound negotiation strategy and communication map

Key Considerations

- Financial and contractual Terms and Conditions of the Lease
- Ownership and governance structure of the Landlord
- Debt and other financing risk on the Property
- History of Tenant/Landlord relationship
- Financial stability of the Tenant

Rent Abatement and Lease Restructures may prove viable solutions over Lease Terminations for Default



Leases Are Changing

Operating Costs:



Include the costs of preparing a pandemic risk assessment and/or a Health Emergency Plan, as well as actual costs in dealing with a Health Emergency.

Health Emergency



If a Health Emergency exists, the Landlord may amend, supplement or otherwise enforce any existing Health Emergency rules or regulations in existence. Without limiting the generality of the foregoing:

- (a) The Landlord shall be entitled to restrict or limit access to the Building to employees;
- (b) The Landlord shall have the right during a Health Emergency to require the Tenant to decontaminate all or any part of the Premises, at the Tenant's expense.
- (c) The Landlord shall be entitled during a Health Emergency to close all or any part of the Building.

Year over Year Changes

Variance Report: Y/E	2018	Cost psf.	\$ Var	% Var	2017	Cost psf.	\$ Var	% Var	2016	Cost psf.	\$ Var
Building R&M	82,217	0.96	29,015	55%	53,202	0.62	\$ (18,952)	-26%	72,154	0.84	72,154
Security/Safety	61,323	0.72	(9,123)	-13%	70,446	0.82	\$ 2,097	3%	68,349	0.80	68,349
Exterior R&M	100,853	1.18	27,245	37%	73,608	0.86	\$ 11,958	19%	61,650	0.72	61,650
Utilities	43,066	0.50	26,216	156%	16,850	0.20	\$ (2,613)	-13%	19,463	0.23	19,463
Insurance	11,385	0.13	2,017	22%	9,368	0.11	\$ (320)	-3%	9,688	0.11	9,688
Administration	40,053	0.47	1,998	5%	38,055	0.45	\$ 4,511	13%	33,544	0.39	33,544
Management Fees	110,392	1.29	11,924	12%	98,468	1.15	\$ 1,844	2%	96,624	1.13	96,624
Realty Tax	327,996	3.84	8,376	3%	319,620	3.74	\$ 12,336	4%	307,284	3.59	307,284
HVAC	6,326	0.10	(9,774)	-61%	16,100	0.26	\$ 11,588	257%	4,512	0.07	4,512
Cleaning	38,049	0.64	3,521	6%	59,207	0.99	\$ (8,313)	-12%	67,520	0.88	67,520
Cleaning	24,679	0.69									
Total	846,339	10.52	91,415	12%	754,924	9.20	14,136	2%	740,788	8.78	740,788

Tenant GLA	24,771				24,771				24,771		
GLA used:											
Operating Costs	85,510				85,510				85,510		
Cleaning-Jan to June 2018	59,757				59,757				76,447		
Cleaning-July to Dec. 2018	35,668										
HVAC	61,421				61,421				61,421		
Tax	85,510				85,510				85,510		

According to accepted Industry Standards, Cresa believes a 3% to 5% increase in costs is acceptable in a building maintenance and operation cycle unless the Landlord incurred expenses allowable under the lease.

Return to Work Strategy

People First

- When planning for a return to work it is important to ensure people – your employees – remain at the centre of everything you do. This begins with open conversations

Prepare Your Space

- Preparing your space and taking the appropriate measure to protect the health of your employees is vital. This includes creating occupancy modeling and traffic flow patterns, design signage for high-density areas within the space, order appropriate supplies and schedule a deep clean prior to occupancy.

Develop Return to Work Guidelines

- Based on the information gleaned from the employee interviews, develop a criteria for occupancy, looking at who should return to the office, considering risk factors, level of appropriate occupancy and business continuity.

Communicate

- It is important to communicate your organization's return to work strategy, to help alleviate anxiety



Return to Work Strategy



Workstation Capacity	
Total Standard Workstations	146
Reduced Capacity (50%)	73
Total Hotel Desks	30
50% Reduced Occupancy	15

Conference/Huddle Rooms	
Existing Capacity	New Capacity
16	6
9	4
8	4
7	3
6	2
4	2

The Drawing is diagrammatic showing the current 6 foot CDC Covid 19 recommended social distancing separation. Please refer to CDC and OSHA social distancing separation guidelines for current recommendations.

Sample Return to Work Documents



STOP Social Distancing Guidelines at Work

- 1 Avoid in-person meetings, events or the gym when you are in the office building.
- 2 Limit desks in common areas to single meeting areas when these have been used only at a distance.
- 3 Eliminate unnecessary non-business conversations, handshakes and eating areas.
- 4 Do not congregating in such rooms or other areas where it is not possible.
- 5 Bring lunch and eat at your desks unless otherwise directed.
- 6 Avoid public transportation or go early or late to avoid public transportation.
- 7 Limit recreational or other activities, such as going to the gym.

STOP Stop the Spread of Germs at Work

COVER YOUR MOUTH AND NOSE WHEN YOU SNEEZE OR COUGH.
Cough or sneeze into a tissue and the P. Place. Ask your site or teams to use the dry paper tissues.

WASH YOUR HANDS OFTEN.
Wash with soap and water with your hands together for 20 seconds. Hand sanitizer is a strong backup.

CLEAN SHARED SURFACES AND EQUIPMENT REGULARLY. Regularly clean and disinfect high-touch surfaces, such as handrails, desktops, printers, fax machines, and remote controls. Take multiple times throughout the day.

AVOID TOUCHING YOUR EYES, NOSE AND MOUTH. Avoid touching your eyes, nose and mouth with your hands. If you do touch, wash your hands immediately.

STAY HOME WHEN YOU ARE SICK. If you are sick, stay home and seek medical care. Do not go to work, school, or public places.

STOP Protect Others From Getting Sick

Avoid close contact when you are experiencing a cough and fever.

Cover your cough and avoid spitting in public.

If you have a fever, cough and difficulty breathing, seek medical care early and share previous travel history with your health care provider.

cresa

Returning to Work What to Expect

Same Space, New Habits FAQs

Is everyone returning to the office at once?
No. Please see the Phased Return to Work Schedule on the following page for more details.

What measures are being taken to sanitize the workspace?
In addition to elevated cleanings between shifts/workdays, each workspace has a sanitization station equipped with masks, gloves and hand sanitizer.

Can we utilize shared spaces (meeting rooms, kitchen, etc.)?
Yes. Signage showcasing the new capacity for these spaces has been posted. Please adhere to these recommendations and be mindful of the suggested distancing measures denoted by floor and desk stickers.

Your Responsibility as an Employee

Do the right thing! Remember: Your actions affect your colleagues and their families.

Protecting Those Around You

- Maintain social distancing.
- Regularly wash or sanitize your hands.
- Maintain a clean workspace.
- Avoid in-person meetings, recreational activities and social gatherings.
- Wearing a mask/face-covering in the office is encouraged. Some jurisdictions require it.
- Consider alternate forms of transportation. Avoid public transportation during rush hour and request an alternate work schedule if necessary.
- Limit time spent in common areas and do not congregate for meals.
- Avoid unnecessary travel.
- Disclose any travel (international or domestic) occurring within 14 days of your return to the office.

In the Event of Illness

- Stay home if sick (including but not limited to symptoms of a fever, cough, or sore throat).
- Stay home if anyone in your household is suspected of having COVID-19.
- Immediately notify your Business Manager if you or anyone in your household has contracted the virus. Be prepared to work from home with little or no notice.
- Bring home all essential items from work for a minimum of 14 days.
- Contact the Employee Assistance Program (EAP) under "Internal Resources" for support.

Your Responsibility as a Business Manager

Your colleagues are depending on you to facilitate communication and reinforce best practices.

- Establish Pandemic Task force
- Communicate with the HR and Corporate team to ensure you're adhering to best practices. Seek guidance for ER issues.
- Create and enforce your office's Return To Work Guidelines.
- Continuously review all available local government guidance (particularly OSHA and CDC guidance).
- Review third-party guidance (SHRM, Ceridian, etc.) and share best practices amongst your peers.
- Meet with your employees to discuss their current situation. Be sure to discuss:
 - Children in the home - do they have a care provider?
 - Immunocompromised or elderly members in the home - is returning to work worth the risk?
 - Efficacy of remote work - can the employee be productive at home?
 - Fear of exposure in the workspace or during commutes
- Make reasonable accommodations for employees whenever possible and re-evaluate these accommodations regularly.

Consider encouraging advisors to keep a similar log of clients they interact with and spaces they tour.

- Discourage unnecessary visitors and require all visitors maintain social distancing and hand washing protocols. NO handshakes!
- Switch to contactless pick-up and delivery whenever possible. Have mail/deliveries left outside of your physical office space and develop sanitation protocols for sorting/distributing the mail.

- Display the posters distributed by Human Resources in the common areas of your office (see attached).
- In the case of an employee contracting Covid-19, we must be prepared to do contact tracing. Every office will be required to keep a log sheet of all visitors to the office, that must include:
 - Name
 - Day and time
 - Reason for entering the space
 - Contact information
 - * Providing contactless pickup and delivery of products

cresa

Best Practices in the Office

Visitors & Vendors	Reception Area	Elevators & Restrooms	Conference Rooms
<ul style="list-style-type: none"> • Limit to those that are necessary • Maintain log of each visitor/vendor and their contact info • Must respect Return to Work Guidelines 	<ul style="list-style-type: none"> • Consider use of virtual switchboard in lieu of multiple receptionists • Provide wipes for this high-traffic area • Limit sharing of equipment 	<ul style="list-style-type: none"> • Determine recommended capacity with building management • Post signage reminding people of high-touch surfaces (buttons/doors) 	<ul style="list-style-type: none"> • Post signage to ensure social distancing • Continue to promote virtual meetings • If lunch is ordered in, request it boxed individually

GoSpaces Mobile

GoSpaces is a mobile app that encourages productive employee behaviors using gamification and ensures your organization returns to work safely.

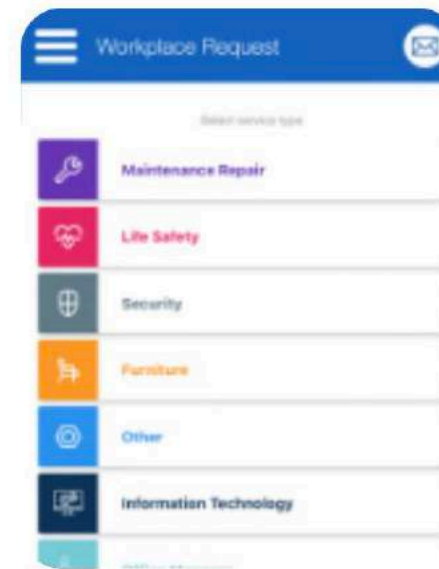
GoSpaces translates employee decisions into financial, environmental and wellness benefits. The app allows employees to make a difference by:

- Volunteering their seat in the office
- Reserving a conference room or seat
- Requesting Facilities Management service
- Providing feedback
- Sharing inspired behaviors with their colleagues

Based on this information, GoSpaces aggregates data that offers valuable analytics, illuminating the use of space, amenities and the employees' overall satisfaction with their work environment.



Locate Space



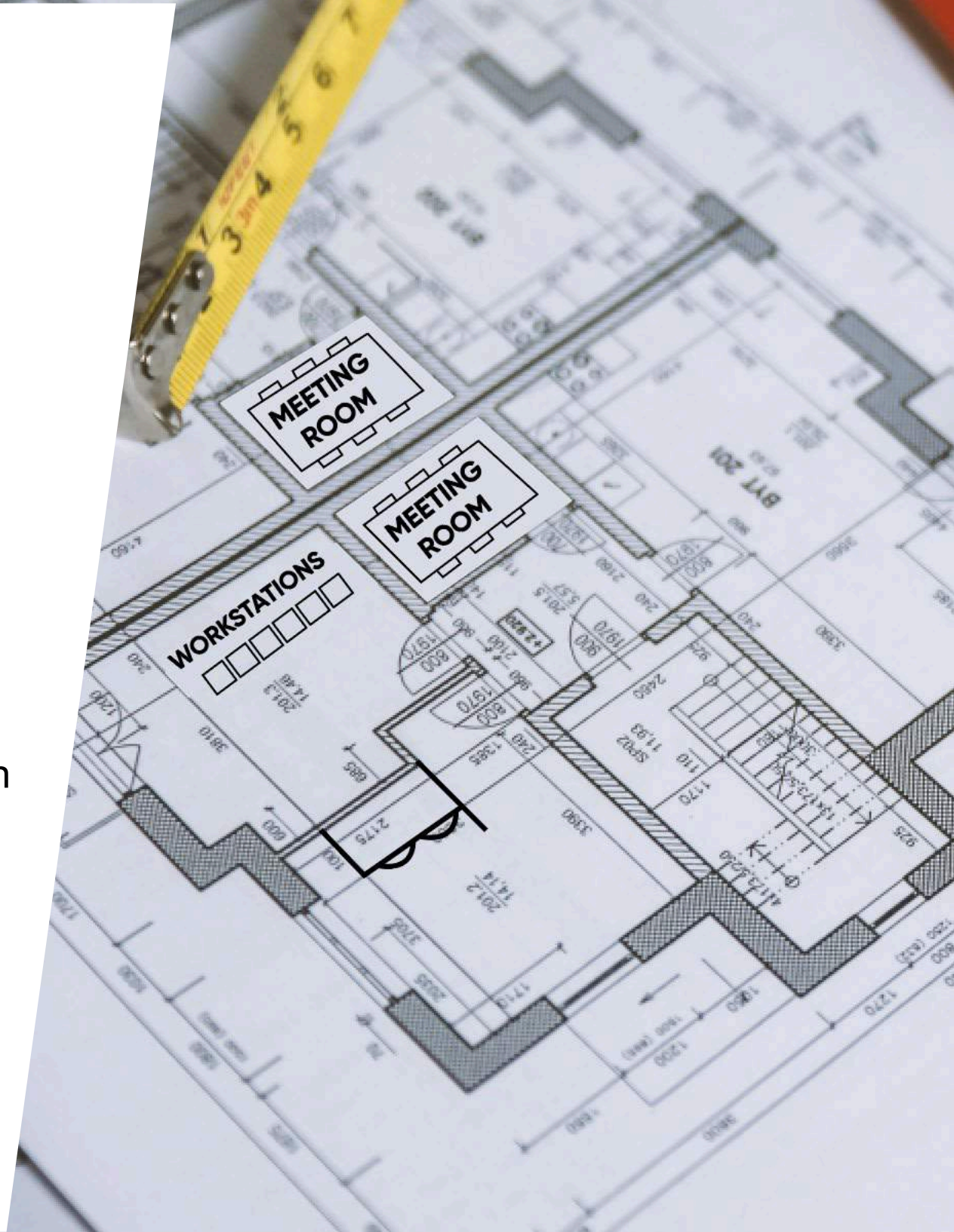
My Workplace



My Contribution

Closing Thoughts

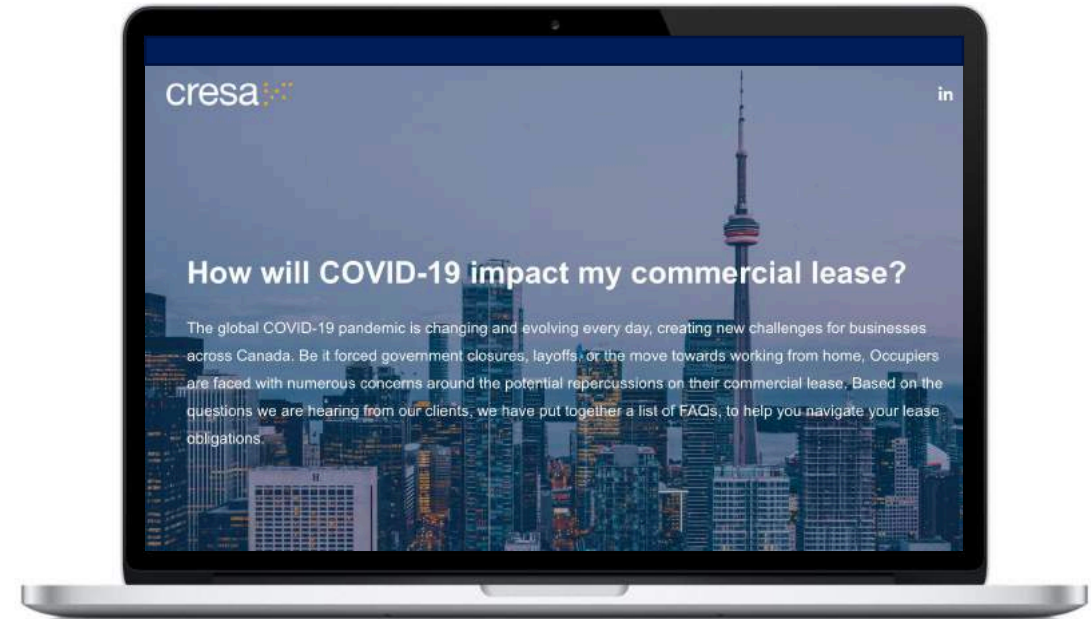
- Tenants should focus on Specific Actionable Strategies vs. General Advice or "following the herd".
- Understand your lease. Audit your Lease now.
- Take the time to gather valuable data on how your organization is performing from home (this is a learning opportunity).
- Develop a formal return to work strategy (including an assessment of office layout and practices).



www.cresa.com



www.cresatoronto.com/cre-covid-19



jgrossman@cresa.com



Jamie Grossman
Follow me on LinkedIn

Cresa Toronto Inc., Brokerage
170 University Avenue, Suite 1100
Toronto, ON M5H 3B3
416.862.2666
cresa.com/toronto