



3RD HAWAI'I COMMERCIAL RENT SURVEY

IBMHAWAII 

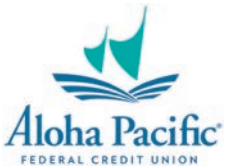
JANUARY 2021

Mahalo

to our partners for making this survey possible



HAWAII EXECUTIVE
collaborative





Aloha,

As we move into 2021 with cautious optimism, we can reflect on last year's economic devastation caused by government-imposed coronavirus restrictions. How bad is it out there? Which areas of our economy were hit the hardest? Will people have jobs to return to? The Third Hawai'i Commercial Rent Survey answers these questions and continues to diagnose how businesses are faring with commercial rent. 1,126 Hawai'i business owners shared their feedback; as we expected, the commercial rent situation continues to worsen.

Survey findings:

- From April through December 2020, 50% of businesses did not pay rent in full.
- Only 5% of businesses have restructured their lease, and only 14% received rent reduction.
- Over half expect to miss at least one full rent payment between January and June 2021.
- More than 80% of businesses saw revenue decline in 2020, and more than 80% expect their annual revenue to decline in 2021.
- 2 in 3 businesses were significantly impacted or closed by government restrictions in 2020. Nearly the same number of businesses do not expect to survive in 2021 without government-funded commercial rent relief.

Congress' second stimulus package won't address the nine months of accumulating back rent many small businesses disproportionately suffer from. And vaccines are out now, but it won't be until mid to late 2021 that enough Americans are inoculated. Leading economists expect daily visitor arrivals and employment to recover deep into 2022 or later.

We need to keep tracking this issue so that we can provide lawmakers with hard data to back up our request for commercial rent relief. Thank you for once again taking a few minutes out of your day to fill out the survey. Also, mahalo to the contributors who helped us spotlight the need for commercial rent relief, including our partners who made this series of quarterly surveys possible. As Hawaiian scholar Mary Kawena Pukui said, *E kuahui like i ka hana. Let everybody pitch in and work together.*

Please contact me if you have any questions or concerns.

Sincerely,

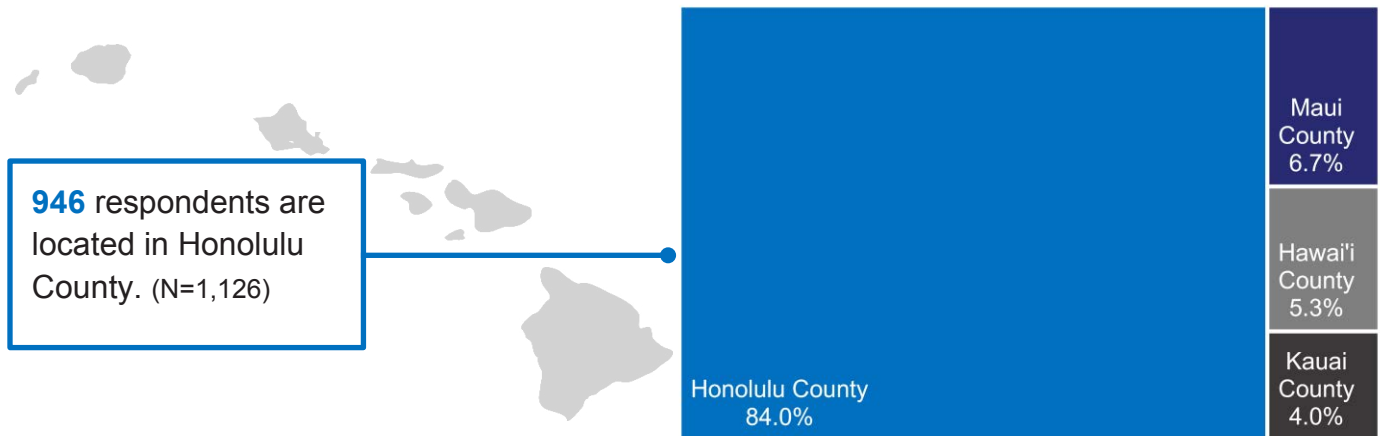
A handwritten signature in black ink, appearing to read 'Ryan Tanaka'.

Ryan Tanaka
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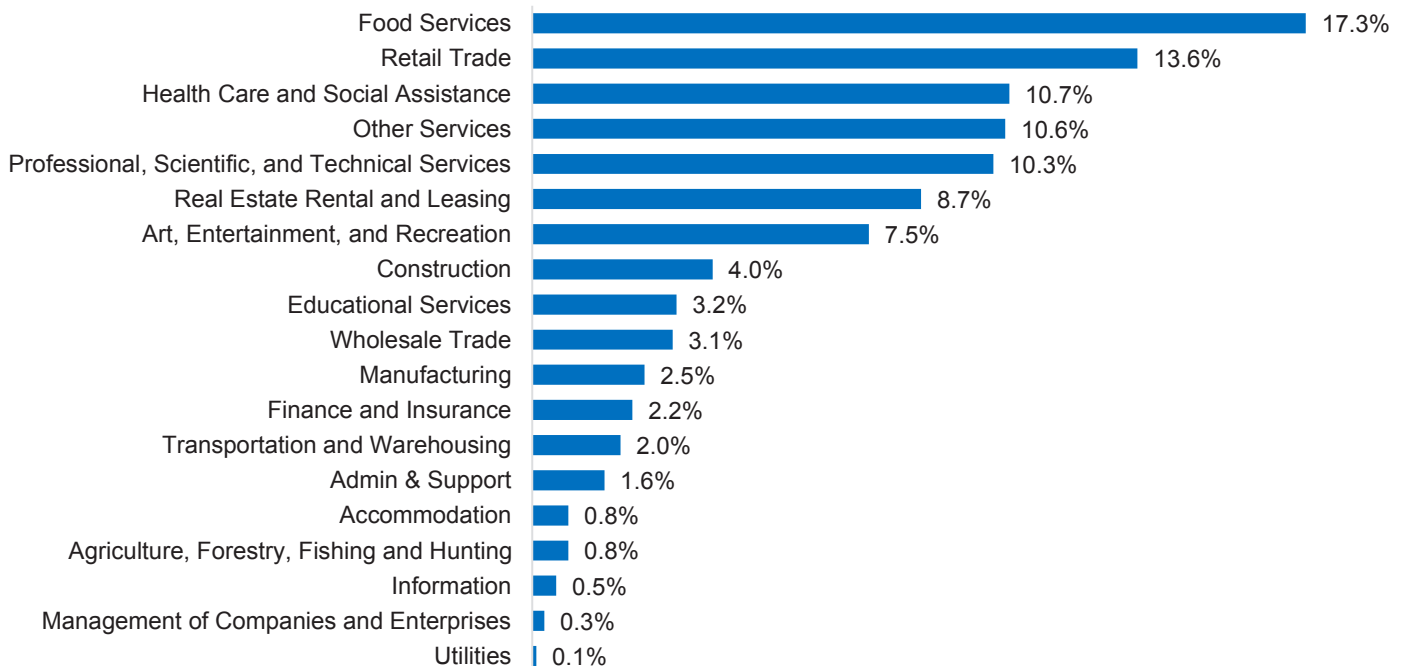
Q4 Survey Respondents

1,126 total business respondents over the **4** counties in Hawai'i broken down into **19** primary industries.



30.9% are in the Food Services and Retail Trade industries.

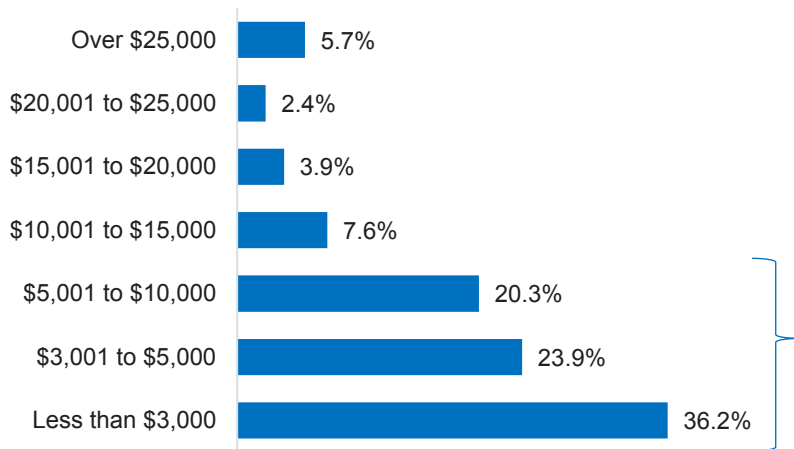
(N=1,114)



72.3% earned less than \$1 million in estimated annual revenue in 2019. (N=1,063)

94.7% employed under 50 full-time equivalent employees as of the end of 2019. (N=1,090)

78.8% are tenants in buildings whose property owner is located within the State of Hawai'i. (N=1,001)



80.4% have monthly base-rent payments less than or equal to \$10,000. (N=965)

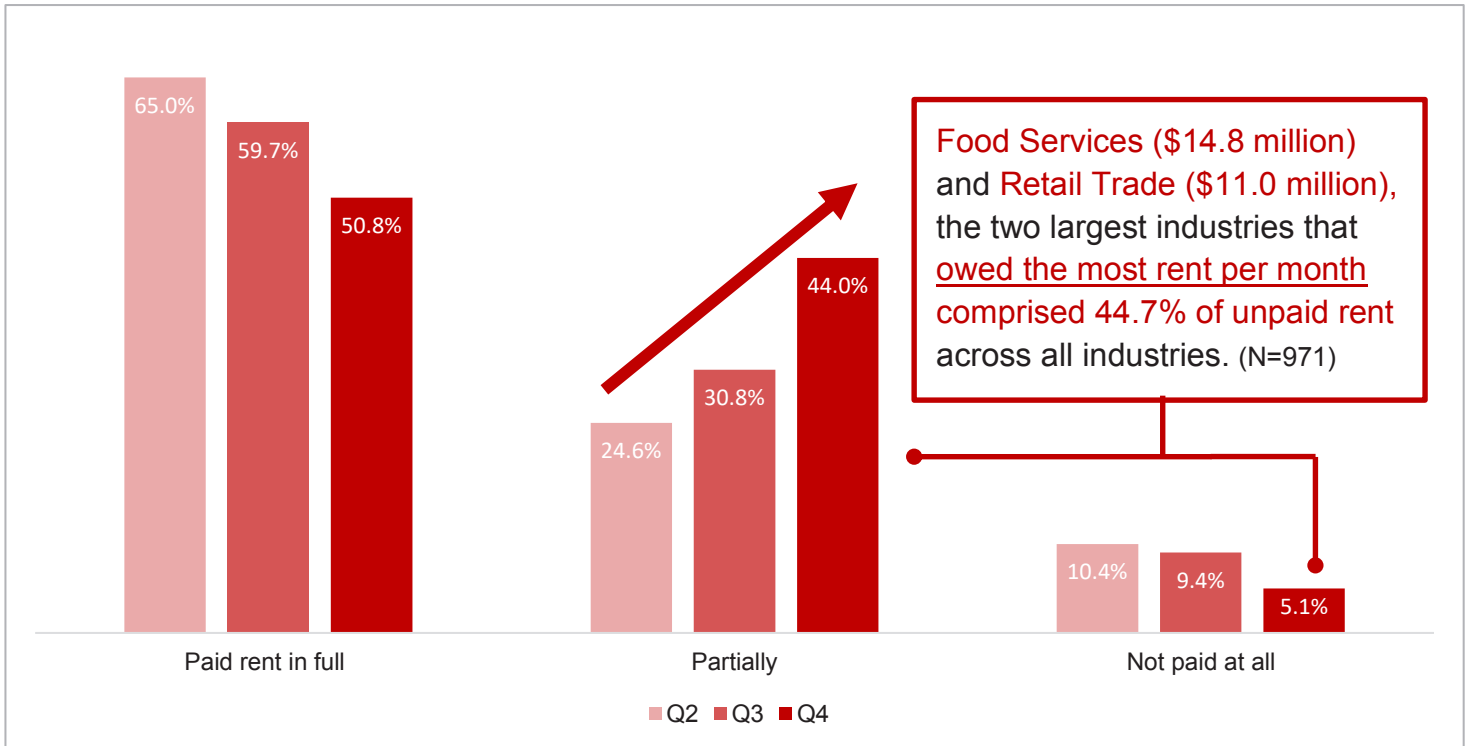
77.4% do not pay percentage rent above their base rent. (N=968)

37.1% report >25% of their revenue comes from tourism. (N=1,004)



Q4 Rent: COVID-19 Impact & Relief

From April through December 2020, **49.1%** of businesses **did not pay rent in full**, and **5.1%** did not pay rent at all. (N=980)

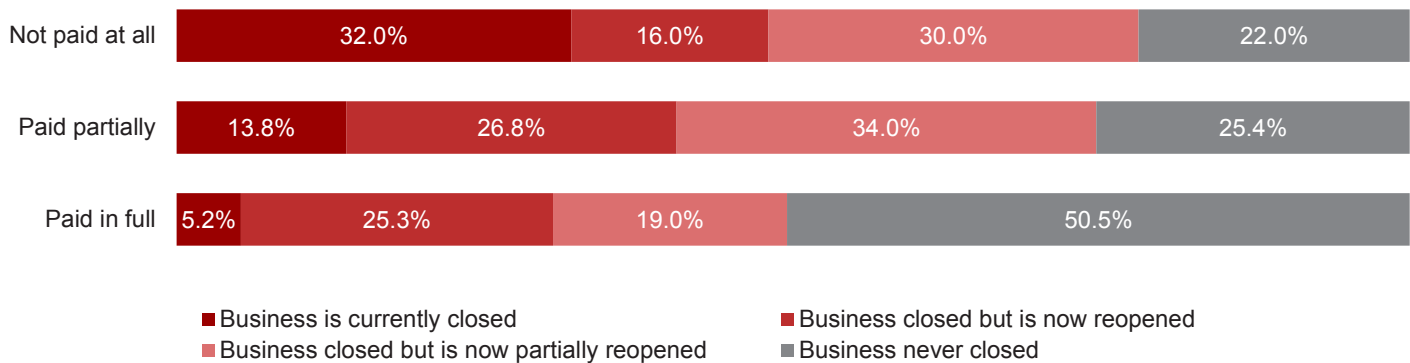


The statewide estimated total rent owed per month is **\$57 million in Q4 (vs. \$59 million in Q3)**. (N=971)

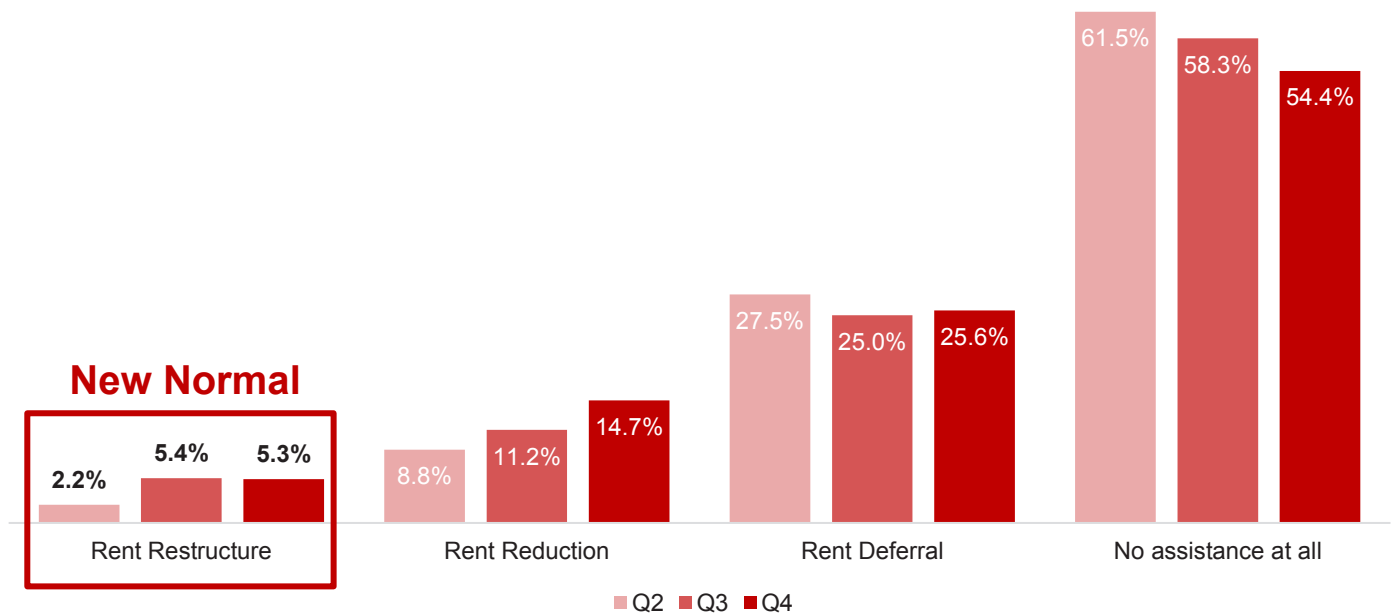
- **\$46 million** in partially unpaid rent (assuming 50% of rent was paid).
- **\$11 million** in fully unpaid rent.



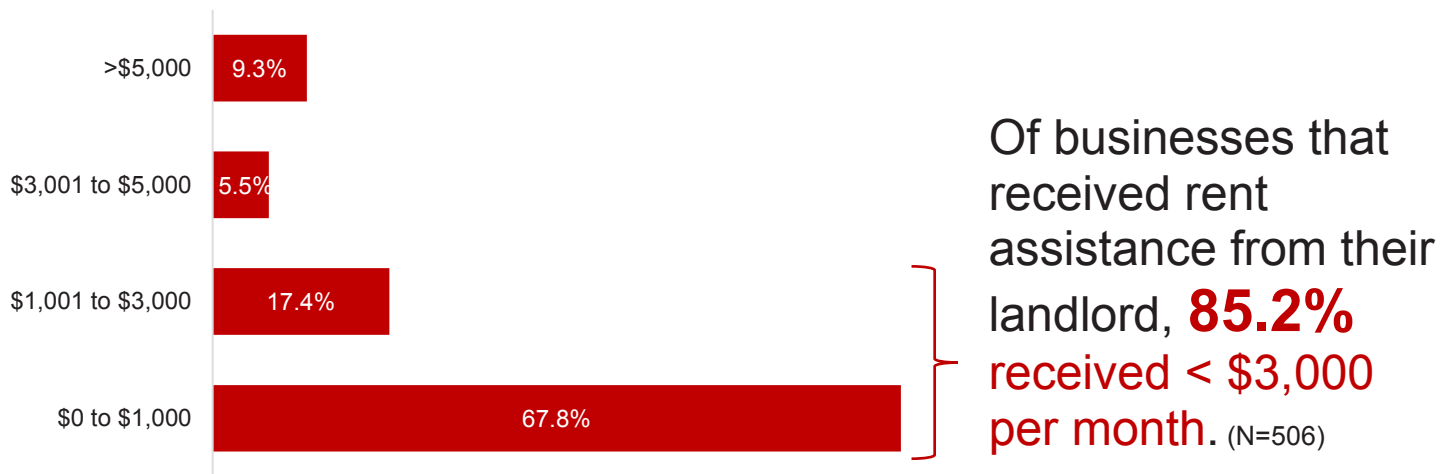
32.0% that have not paid rent at all are currently closed. (N=978)



54.4% have not received any rental assistance at all from their landlord. Rent deferral was the most common form of rental assistance over rent reduction and rent restructure. (N=1,059)



Only **5.3%** of rental agreements have been restructured as businesses enter the **new normal**. (N=1,059)



Businesses expected to miss at least one full rent payment between January to June 2021:

2 in 3

Entertainment



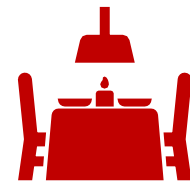
6 in 10

Retail



2 in 3

Restaurants



Current Business Assistance

83.5% received financial support from PPP and/or the Small Business Administration relief programs. (N=951)

74.3% received assistance from their counties' grant programs to small businesses. (N=950)

18.6% received loan deferrals from their bank. (N=944)

Q4 Impact of COVID-19 on Revenue & Operations

COVID-19 continues to impact Hawai'i's economy as **61.2%** of businesses closed due to the pandemic, and as **36.3%** of businesses remain closed or have only partially reopened. (N=1,013)

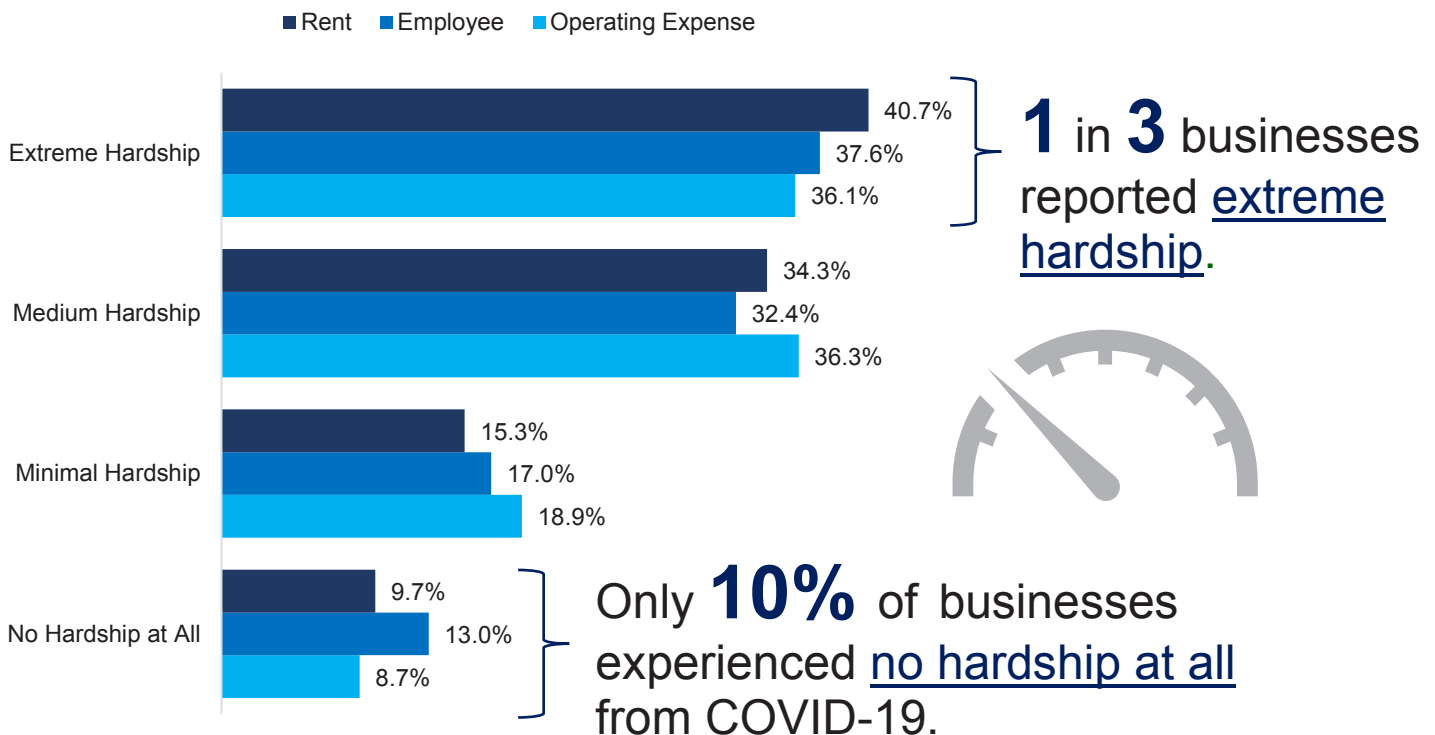
38.8% did not close.

24.9% closed but have now reopened.

25.7% closed but have now partially reopened.

10.7% closed and remain closed.

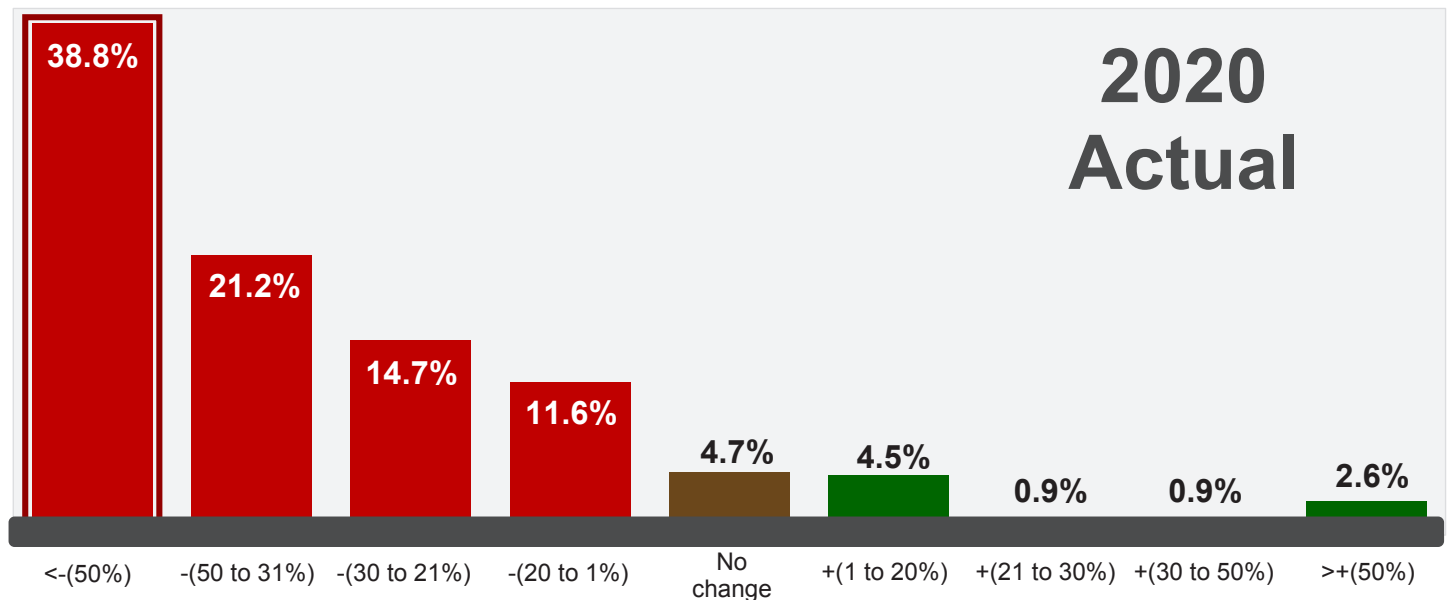
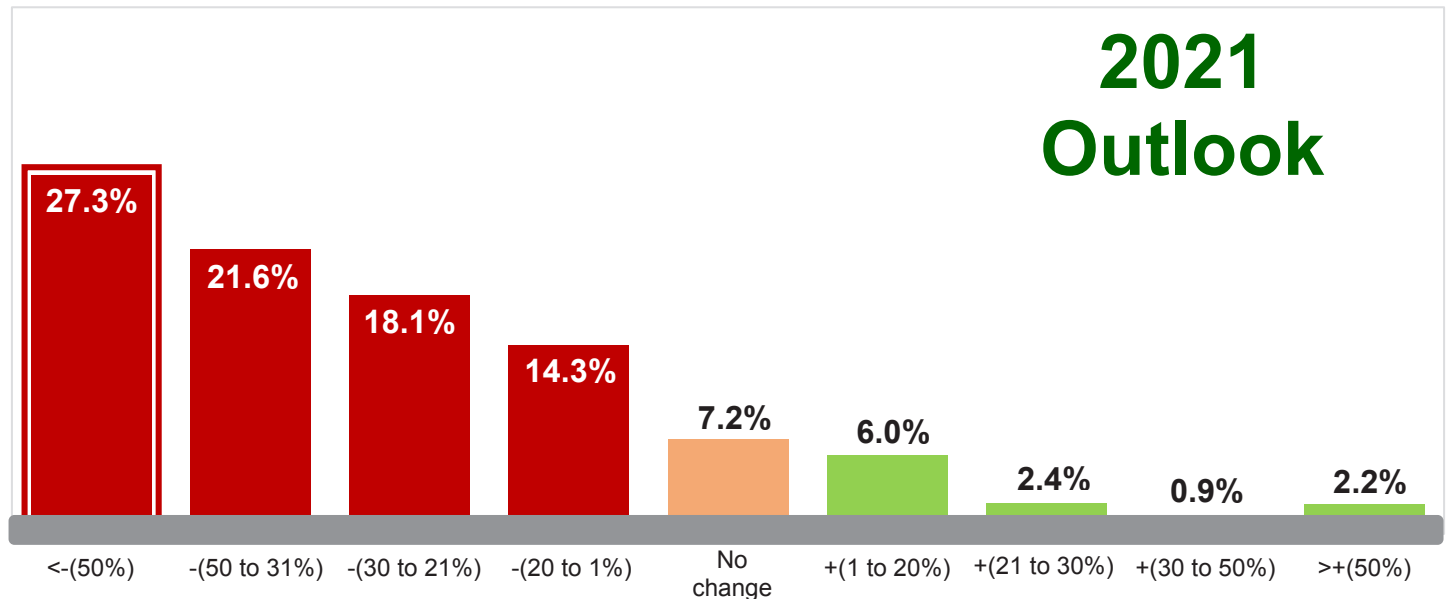
Majority of businesses reported some degree of hardship imposed by COVID-19 on their ability to pay rent (**90.3%**), employees (**87.0%**), and operating expenses (**91.3%**).



No Hardship at All = 100% able to pay; **Minimal Hardship** = greater than 90% probability of being able to pay; **Medium Hardship** = 75-89% probability of being able to pay; **Extreme Hardship** = less than 75% probability of being able to pay

Q4 Business Outlook: New Normal

81.3% expect their annual revenue to **decline** in 2021 (N=851) vs. **86.4%** of businesses saw revenue **decline** in 2020. (N=1,017)



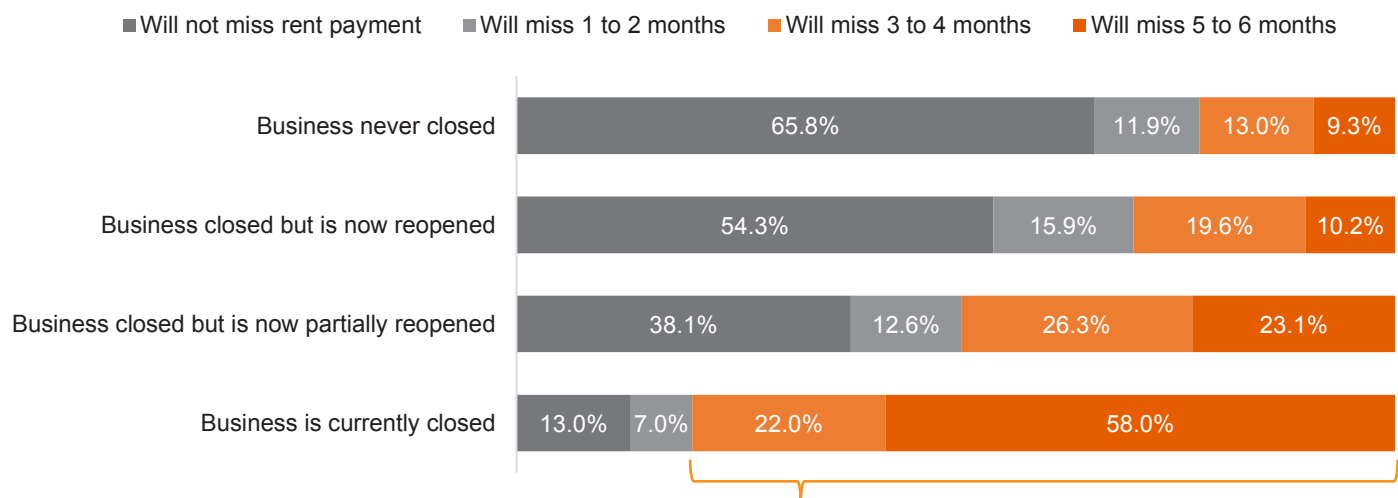
27.3% expect revenue to **decline > 50%** in 2021 (N=851) vs. **38.8%** of businesses saw revenue **decline of > 50%** in 2020. (N=1,017)

Q4 Rent Outlook: New Normal

Comparing results between the three Hawai'i Commercial Rent Surveys illustrates the **increasing need for commercial rent assistance**. More businesses expect to miss increased amounts of commercial rent and for longer periods, including businesses previously able to pay rent. The percentage of businesses expecting to miss commercial rent payments increased significantly for all categories.

The approval of COVID-19 vaccines in December with plans for accelerated distribution to the general public in 2021 has improved economic forecasts. However, the recovery is expected to be slow and gradual until the latter part of 2021. Significant improvement of business conditions and commercial rent assistance can't come soon enough for those currently behind and expecting to miss more rent payments. Businesses have permanently closed their doors and laid off employees in 2020 due to the **commercial rent burden compounded with the realities of doing business in the new normal**.

Over half (50.2%) of businesses expect to miss at least one full rent payment between January and June 2021. (N=942)

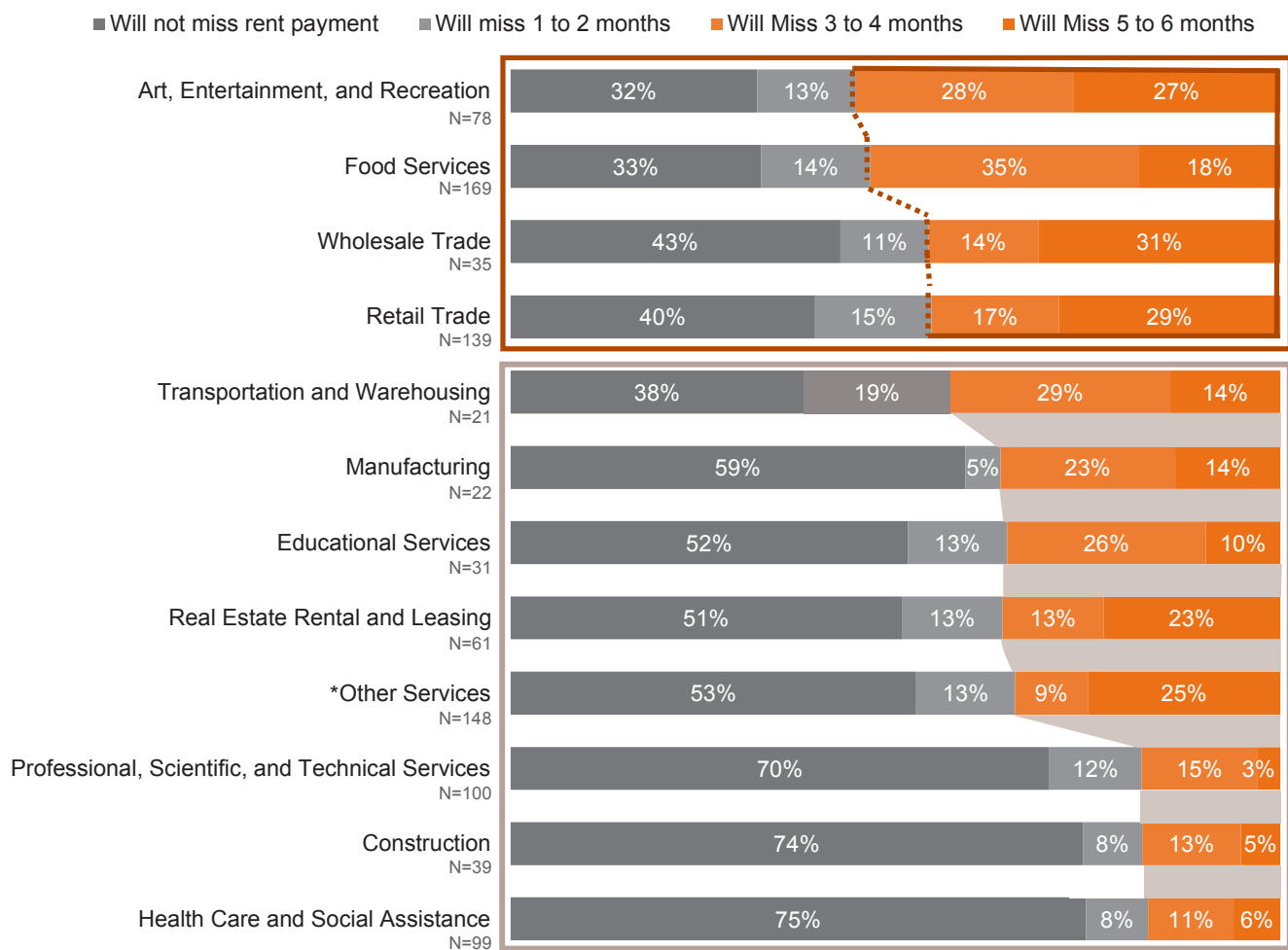


8 in 10 businesses that are currently closed **expect to miss at least 3 to 6 months of full rent payments** between January and June 2021. (N=946)



4 in 10 businesses expect to miss 3 to 6 months of full rent payments between January and June 2021. (N=942)

4 of 19 primary industries expect half of their businesses to miss 3 to 6 months of full rent payments between January and June 2021. (N=942)



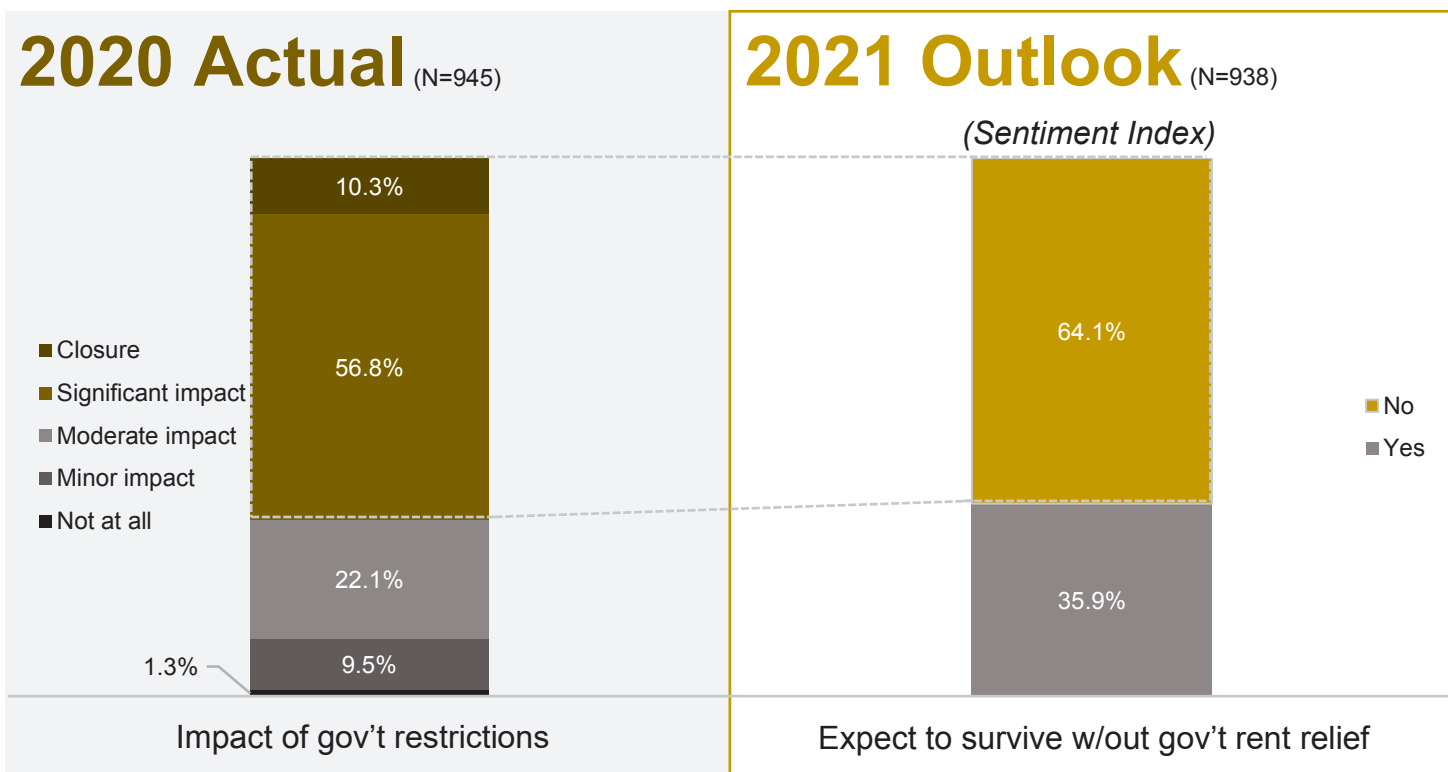
*Other Services includes (Utilities, Management of Companies, Information, Agriculture, Accommodation, Admin & Support of Companies, Finance & Insurance)

1 in 4 businesses in the remaining 15 industries expect to miss 3 to 6 months of full rent payments between January and June 2021. (N=942)

Q4 Survivability Outlook: New Normal

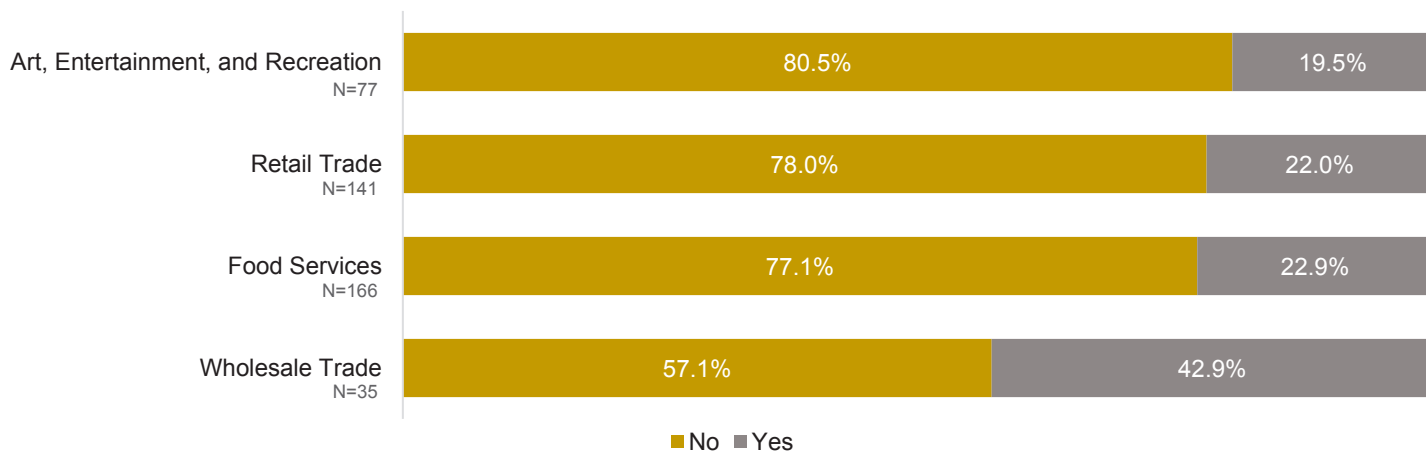
2 in 3

businesses were significantly impacted or closed due to government restrictions in 2020. Nearly the same number of businesses do not expect to survive in 2021 without government commercial rent relief.



Within the 4 most impacted industries, **3 in 4** do not expect to survive in 2021 without government commercial rent relief.

These 4 industries employ > 1/3 of our state's workforce. (N=938)

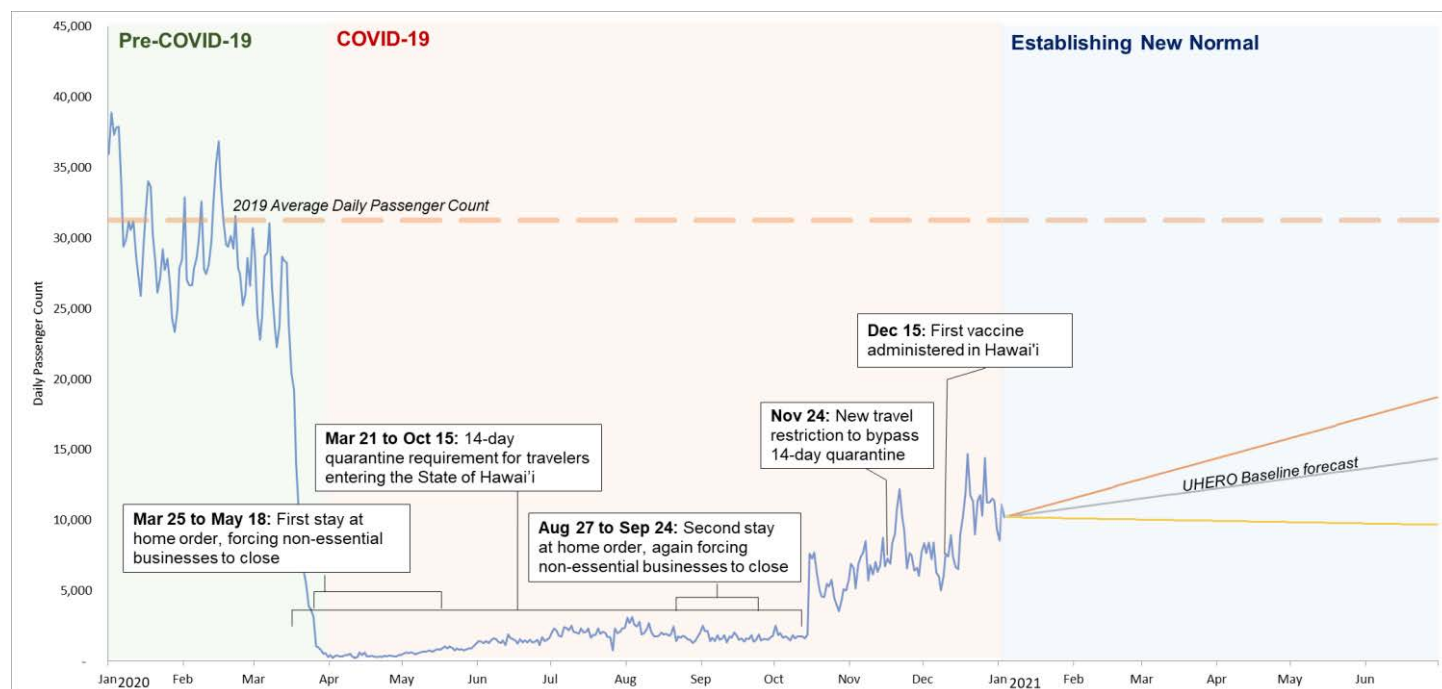


Conclusion

Businesses used government stimulus funds to finance a portion of their expenses in 2020 but the amount and timing of financial support was too little, too late and many businesses have already closed their doors permanently. Businesses limping into Q4 2020 after the second stay-at-home order have started to see revenues increase, but are still significantly burdened by accumulating debt and expenses resulting from two government imposed shut-downs and operating restrictions considerably reducing their revenue generating capability. **Government action is needed now.**

Businesses have not been able to pay rent, continue to add to their rent burden, and expect to miss further rent payments in 2021. As tourism remains below pre-COVID-19 levels over the next three to five years¹ and with safety regulations affecting business capacity and service, businesses already operating with thin margins continue to struggle to break even before adding deferred payments of accumulating back rent.

Commercial Rent relief will be necessary for many businesses to survive, and lease restructuring would allow landlords and tenants to redefine lease terms that reflect market conditions in the new normal. Financial aid for commercial landowners would help incentivize them to do so.



¹ "UHERO Annual Hawaii forecast with global outlook: Mainland COVID-19 surge means a bleak winter, but vaccines promise 2021 growth" UHERO, December 11, 2020

