

4TH

HAWAI'I
COMMERCIAL
RENT SURVEY

IBMHAWAII 



APRIL 2021

Mahalo

to our partners for making this survey possible



HAWAII EXECUTIVE
collaborative





Aloha,

The Fourth Hawai'i Commercial Rent Survey diagnosed how businesses are faring with commercial rent through March 2021. 790 Hawaii business owners shared their feedback; and while we are seeing the commercial rent situation is starting to improve, we're still not out of the woods.

The delicate balance between managing the new number of COVID-19 cases while easing restrictions has led to a rebound in visitor arrivals. As the market is shifting quickly, various forms of financial relief including but not limited to the second round of PPP is helping local businesses to stay afloat and preserve local jobs.

In addition to daily case count, a new guiding metric to manage the COVID-19 pandemic is the number of statewide vaccinations. The transition towards herd immunity is helping to improve consumer sentiment and contribute to an expedited economic recovery.

The fourth survey ending March 2021 showed some improvements for businesses compared with the third survey ending December 2020. Highlights include:

- 40 percent of businesses did not pay rent in full versus 50 percent in the third survey.
- 21 percent received rent reduction compared to 15 percent in the third survey.
- 36 percent expect to miss at least one full rent payment between April and June 2021 compared to 50 percent in the third survey.
- 74 percent expect their annual revenue to decline in 2021 compared to 80 percent in the third survey.
- Still, 47 percent do not expect to survive in 2021 without government-funded commercial rent relief, and only 5 percent of business have restructured their lease.

Despite a number of tailwinds steering the economy towards a V-shaped recovery, Congress' recent stimulus package won't address the twelve months of accumulating back rent many Hawai'i small businesses disproportionately suffer from.

Without a catalyst to help negotiations with commercial landlords, many small business tenants realistically may not survive from the economic devastation brought by COVID-19. Businesses still need to follow social distancing measures and be prepared for a step backwards in the tier system.

We continue to monitor the status of commercial rent statewide so that we can provide lawmakers with hard data to back up our request for commercial rent relief. Thank you for taking the time to fill out our survey and read our report. Also, mahalo to our partners who made these quarterly surveys possible. As Hawaiian scholar Mary Kawena Pukui said, A'ohe hana nui ka alu'ia. No task is too big when done together.

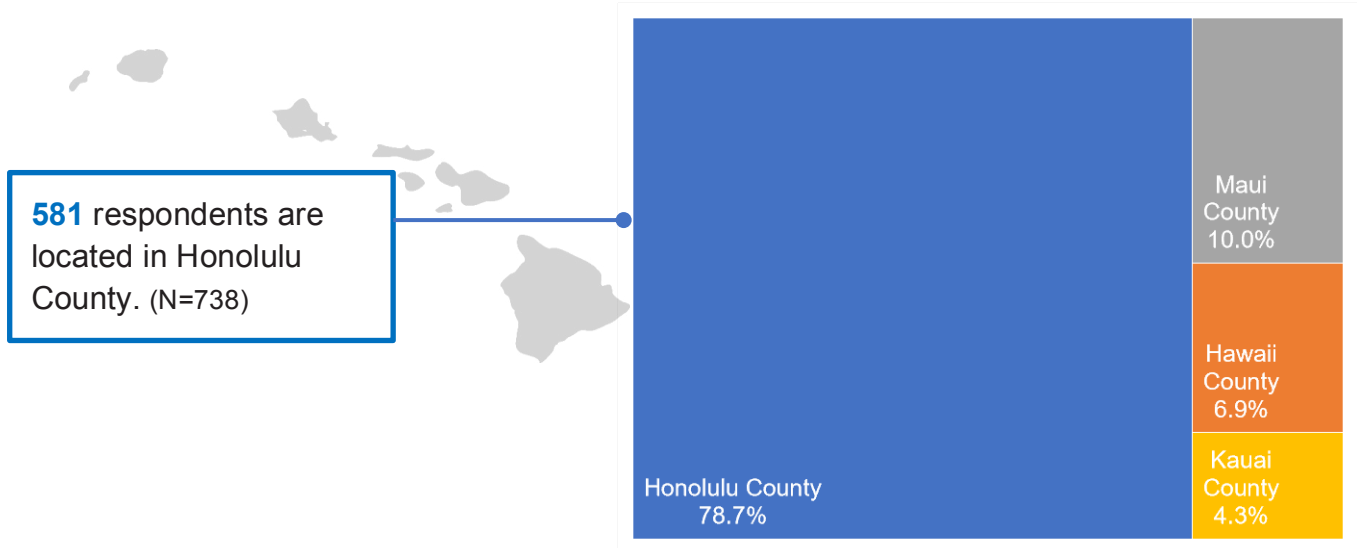
Please contact me if you have any questions or concerns.

Sincerely,

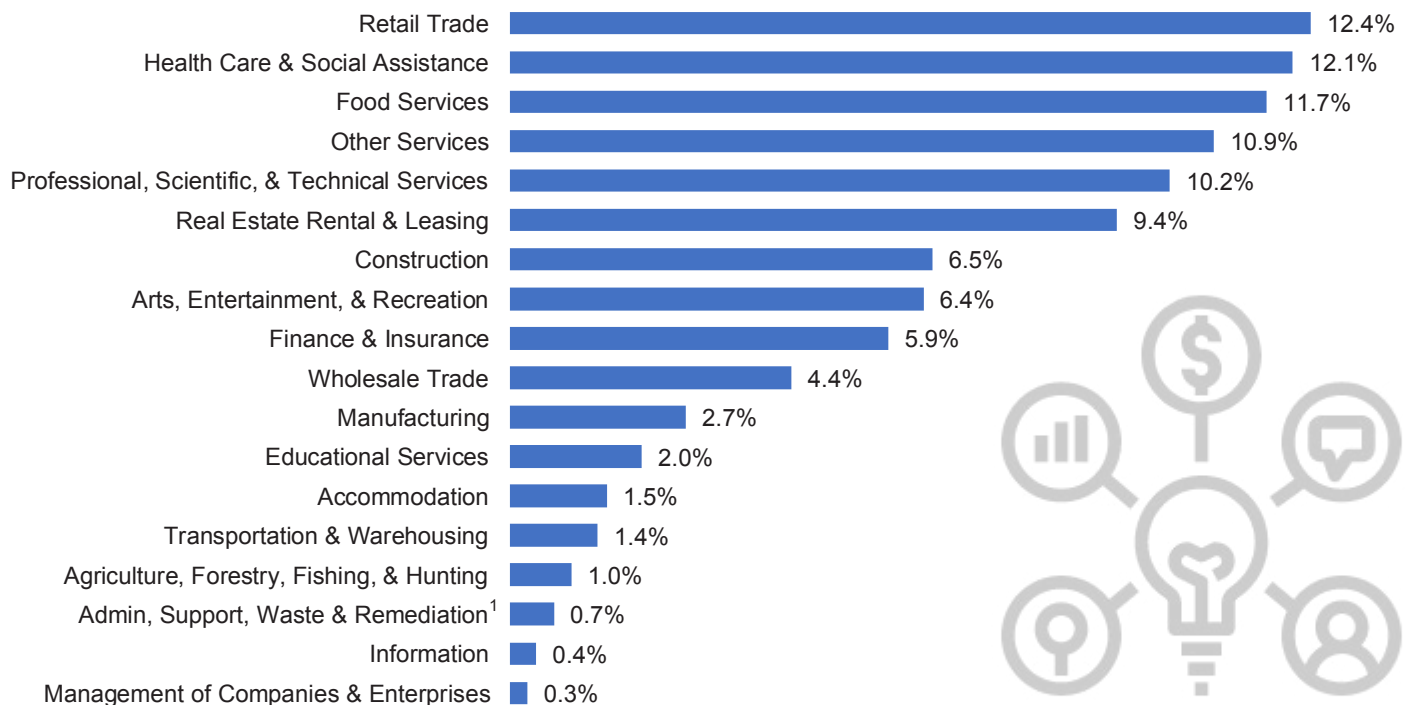
Ryan Tanaka
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1Q 2021 Survey Respondents

790 total business respondents over the **4** counties in Hawai'i broken down into **18** primary industries.



36.2% are in the Retail Trade, Health Care & Social Assistance, and Food Services industries. (N=733)

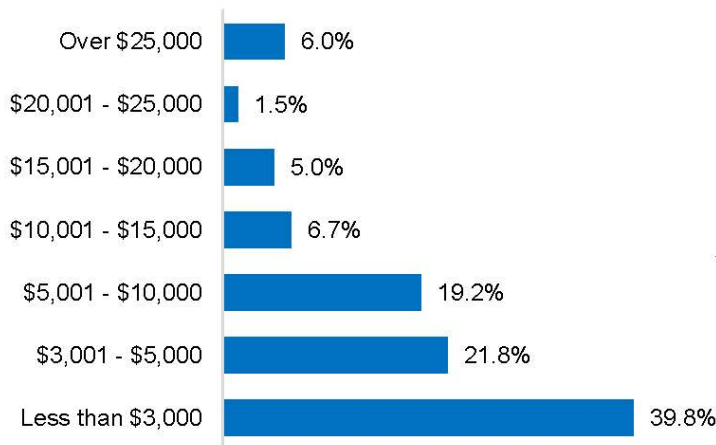


¹ Administrative & Support, Waste Management, & Remediation Services

75.6% earned < \$1 million in estimated annual revenue in 2019.
(N=689)

92.9% employed < 50 full-time equivalent employees as of the end of 2019. (N=723)

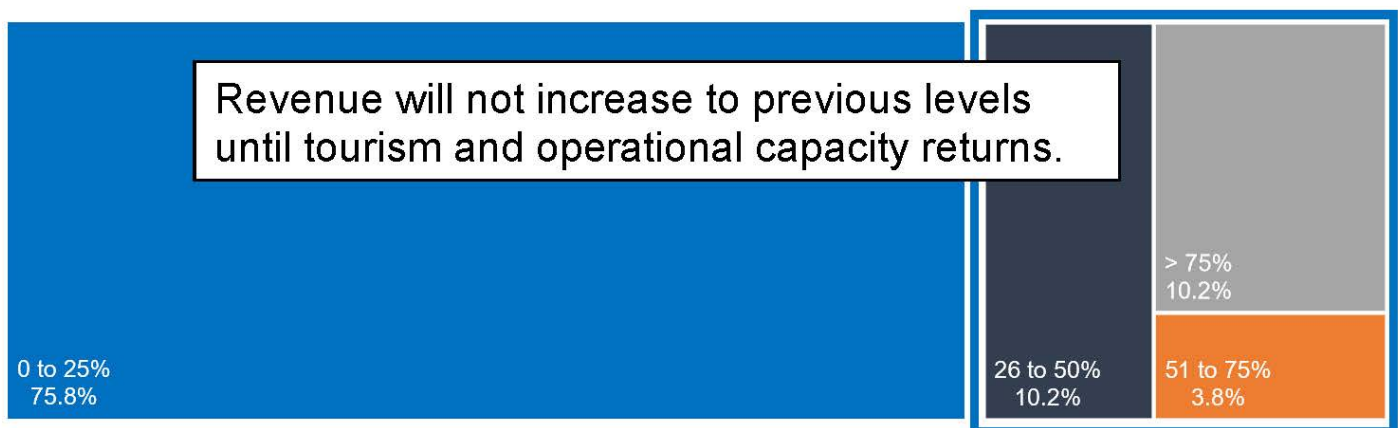
81.5% are tenants in buildings whose property owner is located within the State of Hawai'i. (N=601)



80.8% have monthly base-rent payments less than or equal to \$10,000.
(N=583)

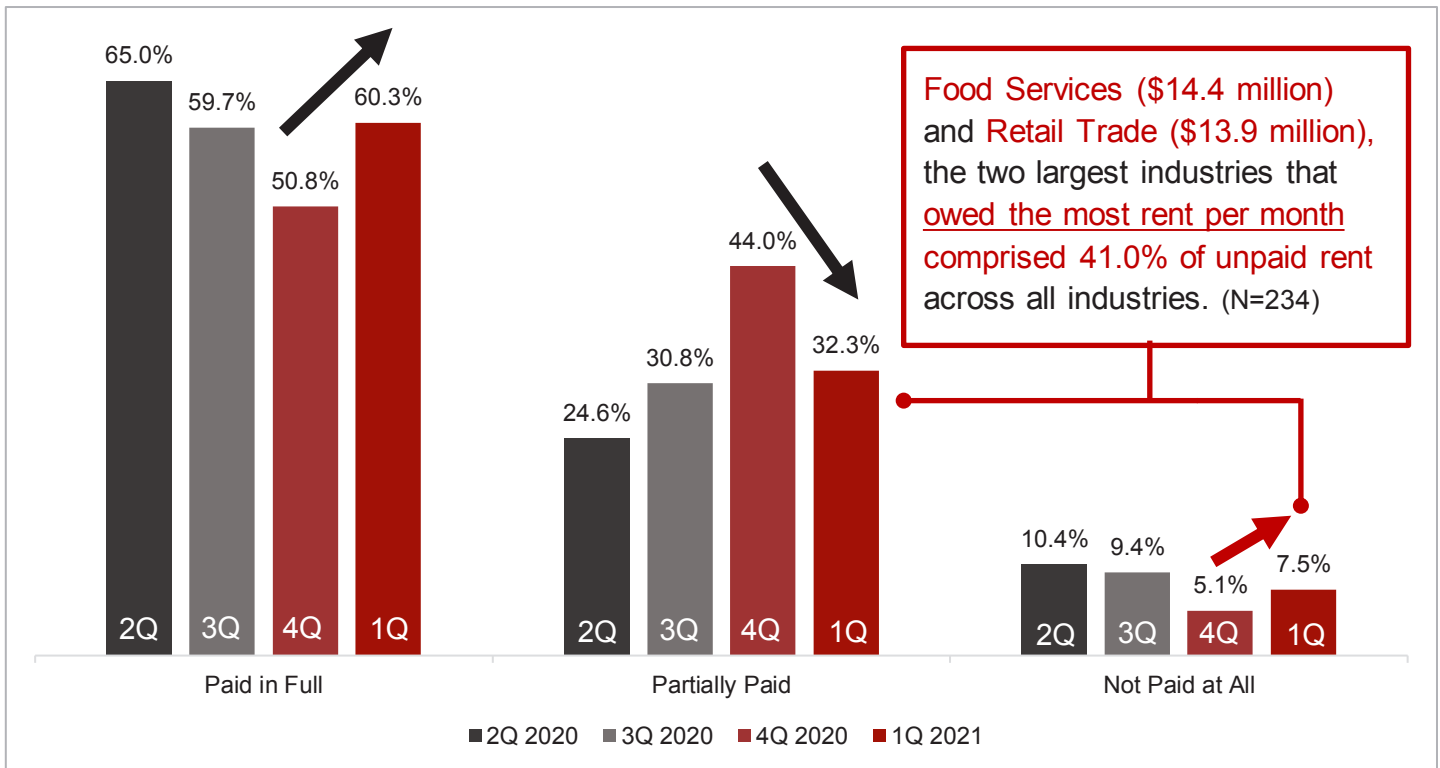
79.5% do not pay percentage rent above their base rent. (N=577)

24.2% report > 25% of their revenue comes from tourism. (N=565)



1Q 2021 Rent: COVID-19 Impact & Relief

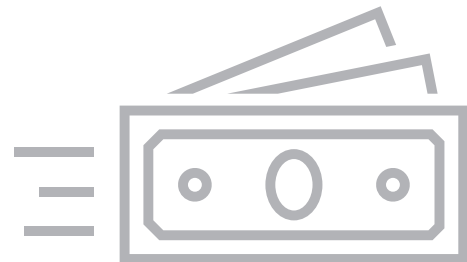
From April 2020 through March 2021, **39.8%** of businesses **did not pay rent in full**, compared to **49.1%** in 4Q 2020.



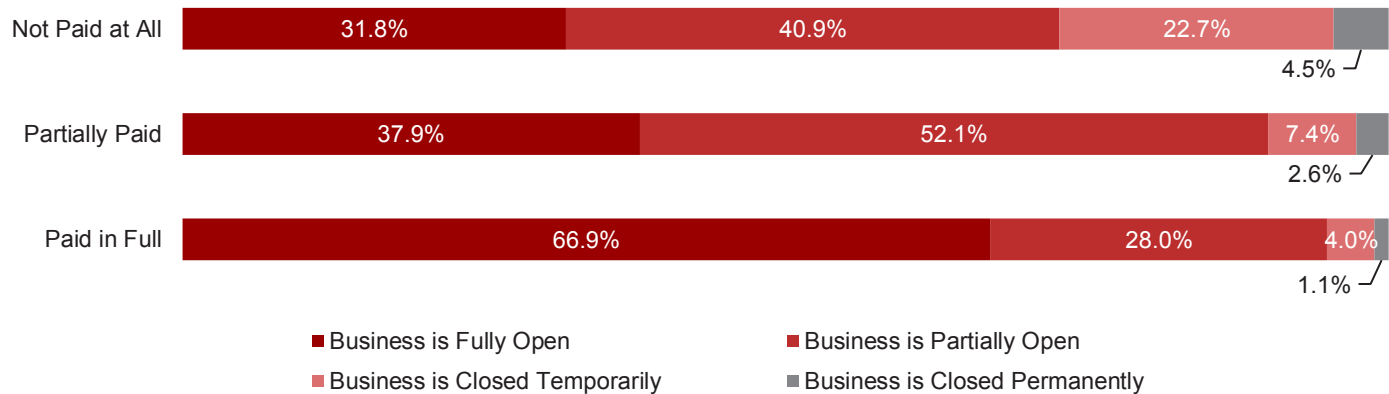
The statewide estimated total rent owed per month is **\$57 million in 1Q 2021 (vs. \$57 million in 4Q 2020)**.

(N=580)

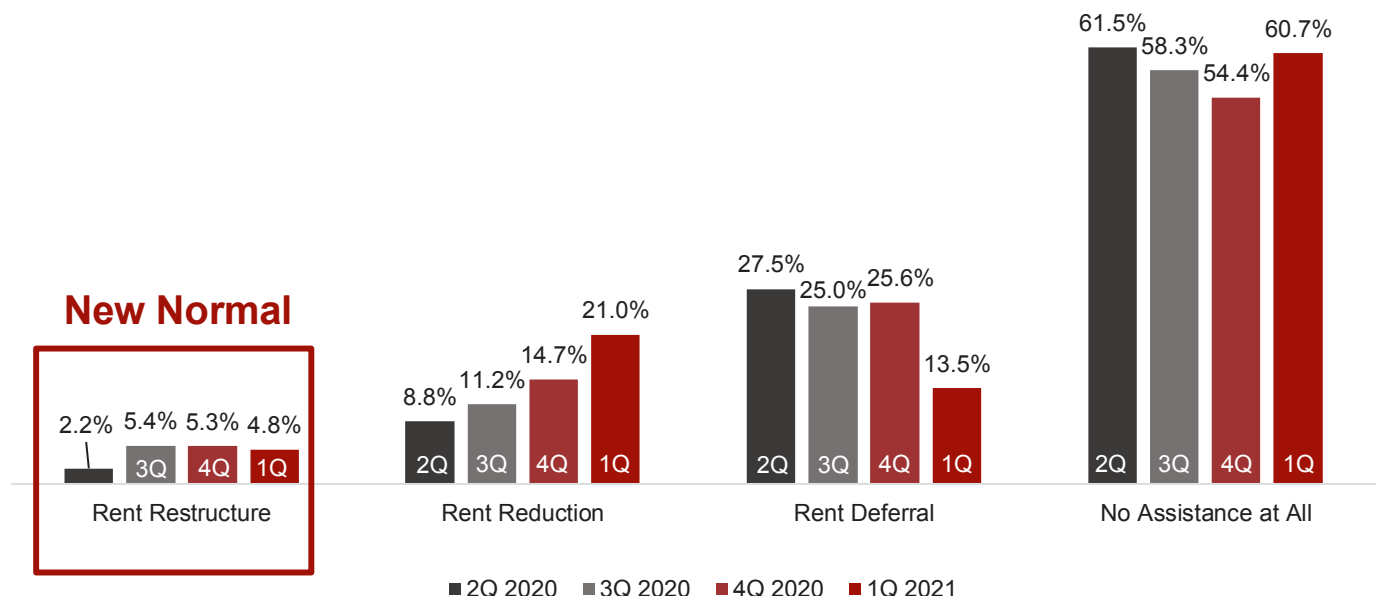
- **\$39 million** in partially unpaid rent (assuming 50% of rent was paid).
- **\$18 million** in fully unpaid rent.



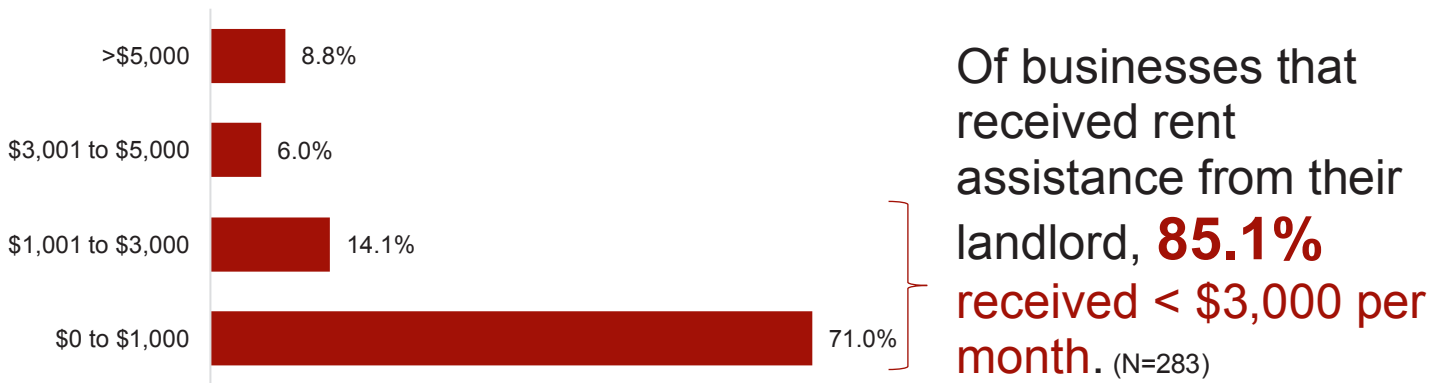
63.6% that have **not paid rent at all** are either temporarily closed or only partially open. (N=588)



60.7% have **not received any rental assistance** at all from their landlord. Rent reduction was the most common form of rental assistance over rent deferral and rent restructure. (N=624)



Only **4.8%** of rental agreements have been restructured as businesses enter the **new normal**. (N=624)



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

1 in 2

Entertainment



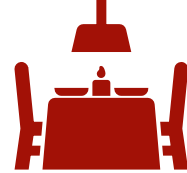
1 in 2

Retail



3 in 5

Restaurants



Current Business Assistance

79.3% received financial support from PPP and/or the Small Business Administration relief programs. (N=560)

58.1% received/expect to receive 2nd round of PPP. (N=558)

53.5% received assistance from their counties' grant programs to small businesses. (N=561)

16.5% received loan deferrals from their bank. (N=557)

1Q 2021 Impact of COVID-19 on Revenue & Operations

1.8% of businesses have permanently closed due to the pandemic, and **42.8%** of businesses remain temporarily closed or have partially reopened. (N=606)

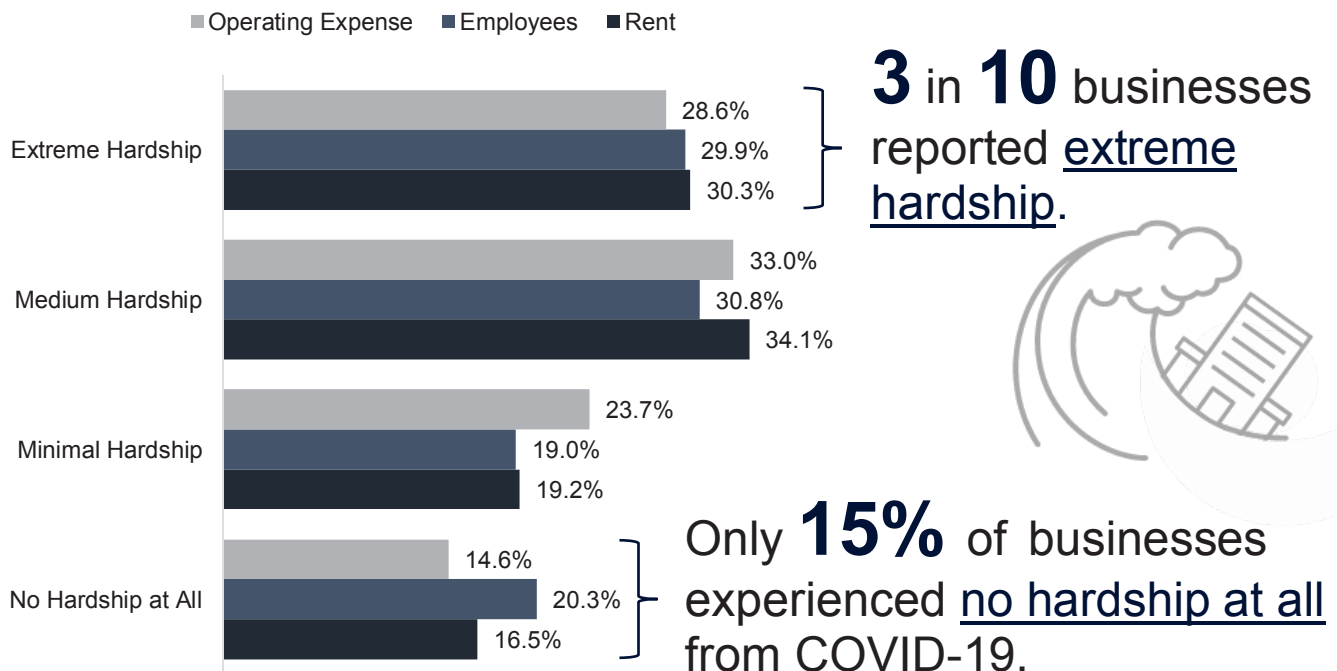
55.4% are fully open

36.5% are partially open

6.3% are temporarily closed

1.8% are permanently closed

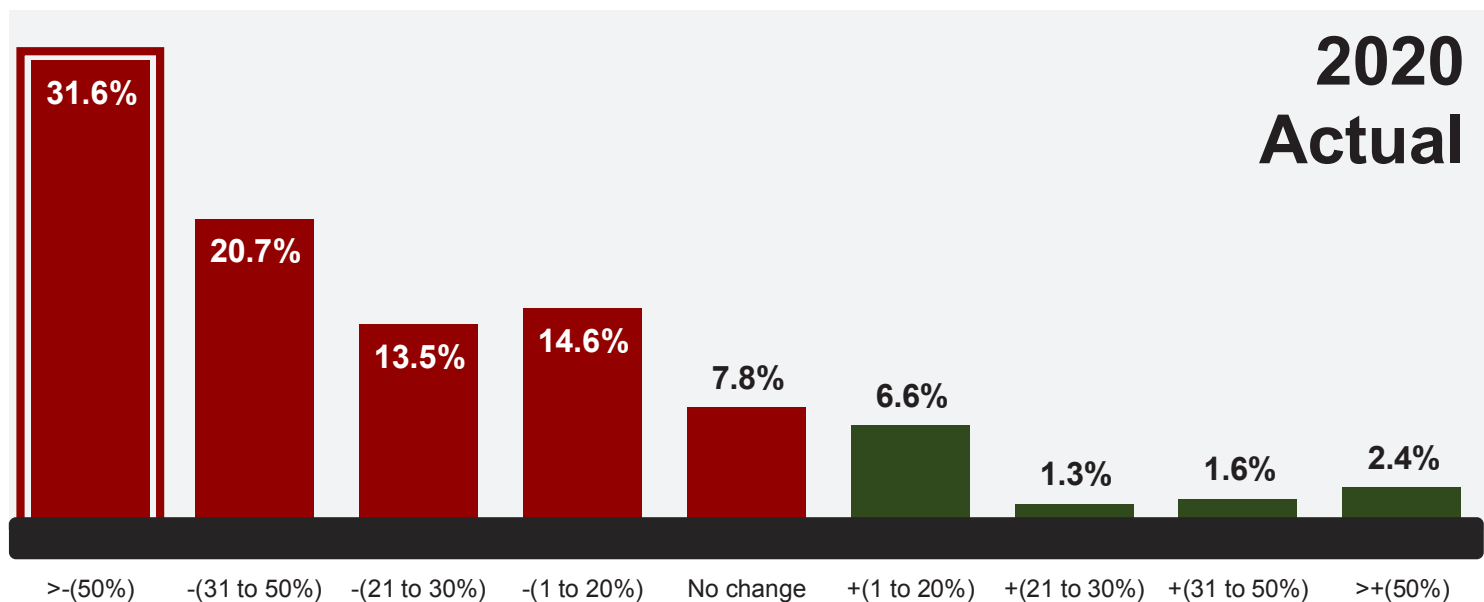
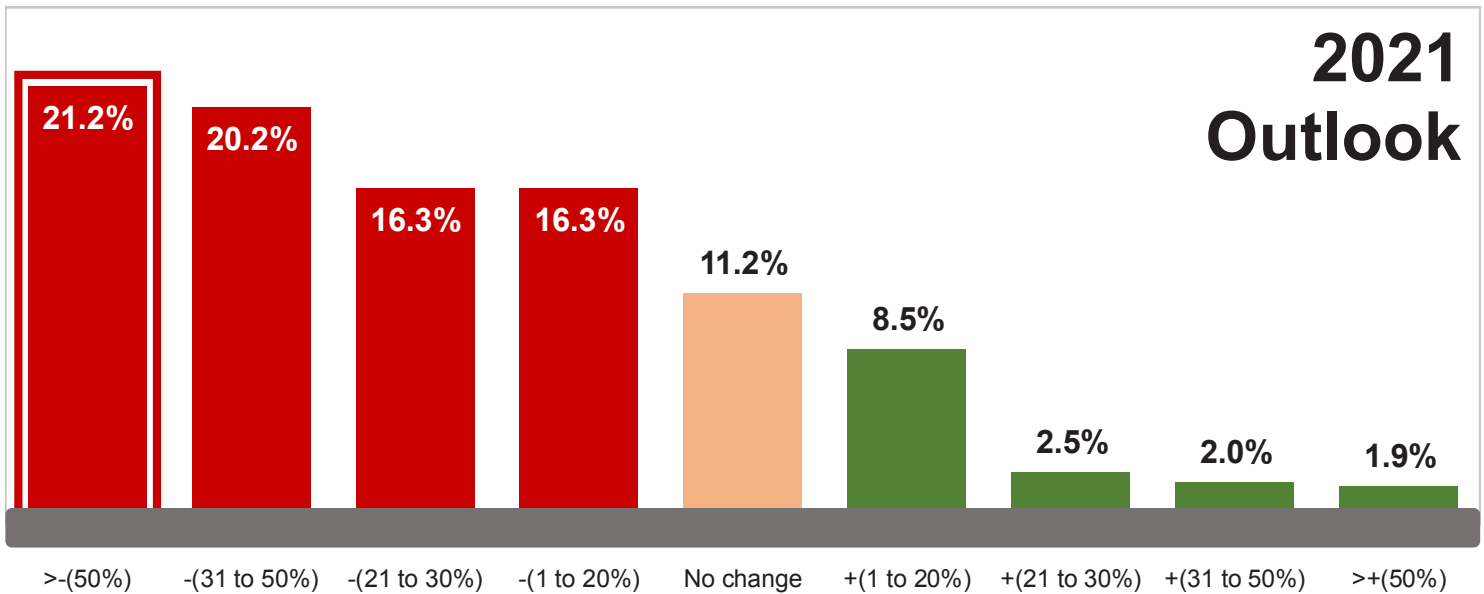
Majority of businesses reported some degree of hardship imposed by COVID-19 on their ability to pay rent (**83.5%**), employees (**79.7%**), and operating expenses (**85.4%**).



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

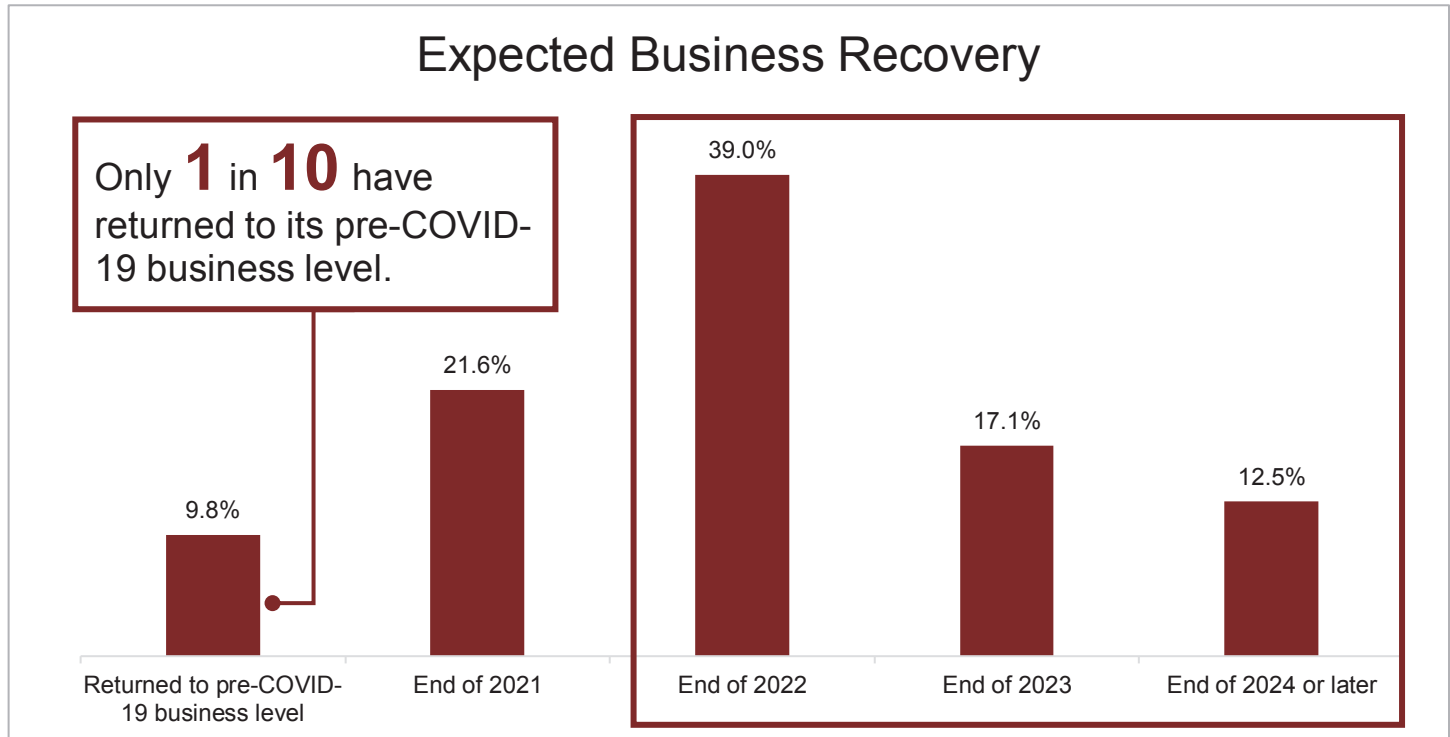
1Q 2021 Business Outlook: New Normal

73.9% expect revenue to **decline** in 2021 (N=590) vs. **80.4%** of businesses saw revenue **decline** in 2020. (N=637)



21.2% expect revenue to **decline > 50%** in 2021 (N=590) vs. **31.6%** of businesses saw revenue **decline > 50%** in 2020. (N=637)

7 in **10** do not expect their business to return to pre-COVID-19 levels by the **end of 2021**. (N=551)



30.2% of businesses that expect to return to pre-COVID-19 business levels by the **end of 2022** are from the **Retail Trade (17.2%)** and **Food Services (13.0%)** industries. (N=215)



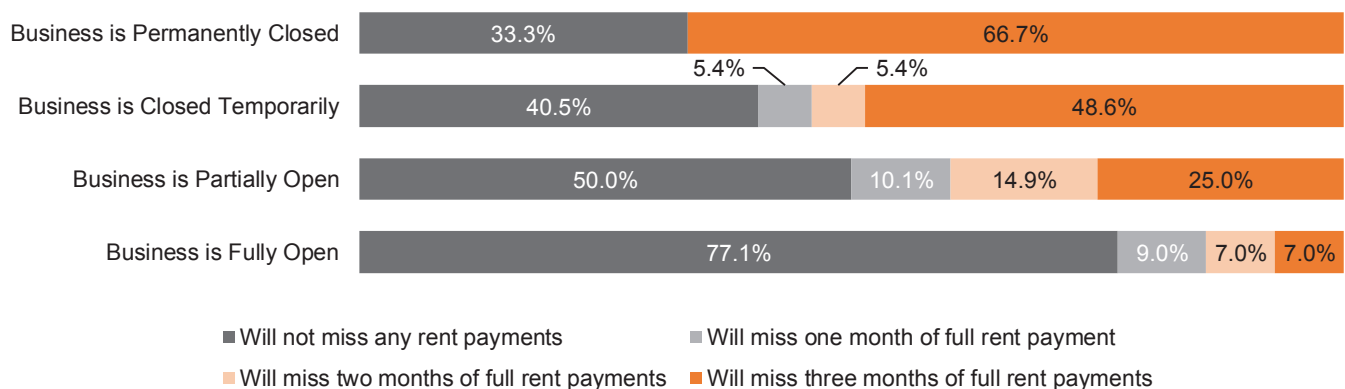
1Q 2021 Rent Outlook: New Normal

Comparing results between the four Hawai'i Commercial Rent Surveys illustrates the **continued need for commercial rent assistance**. Only 4.8% of businesses were able to restructure their leases. Of the businesses expecting to miss one full rent payment this quarter, half do not expect to be able to pay any rent for the entire quarter. Nearly half of all businesses do not expect to survive in 2021 without government-funded commercial rent relief.

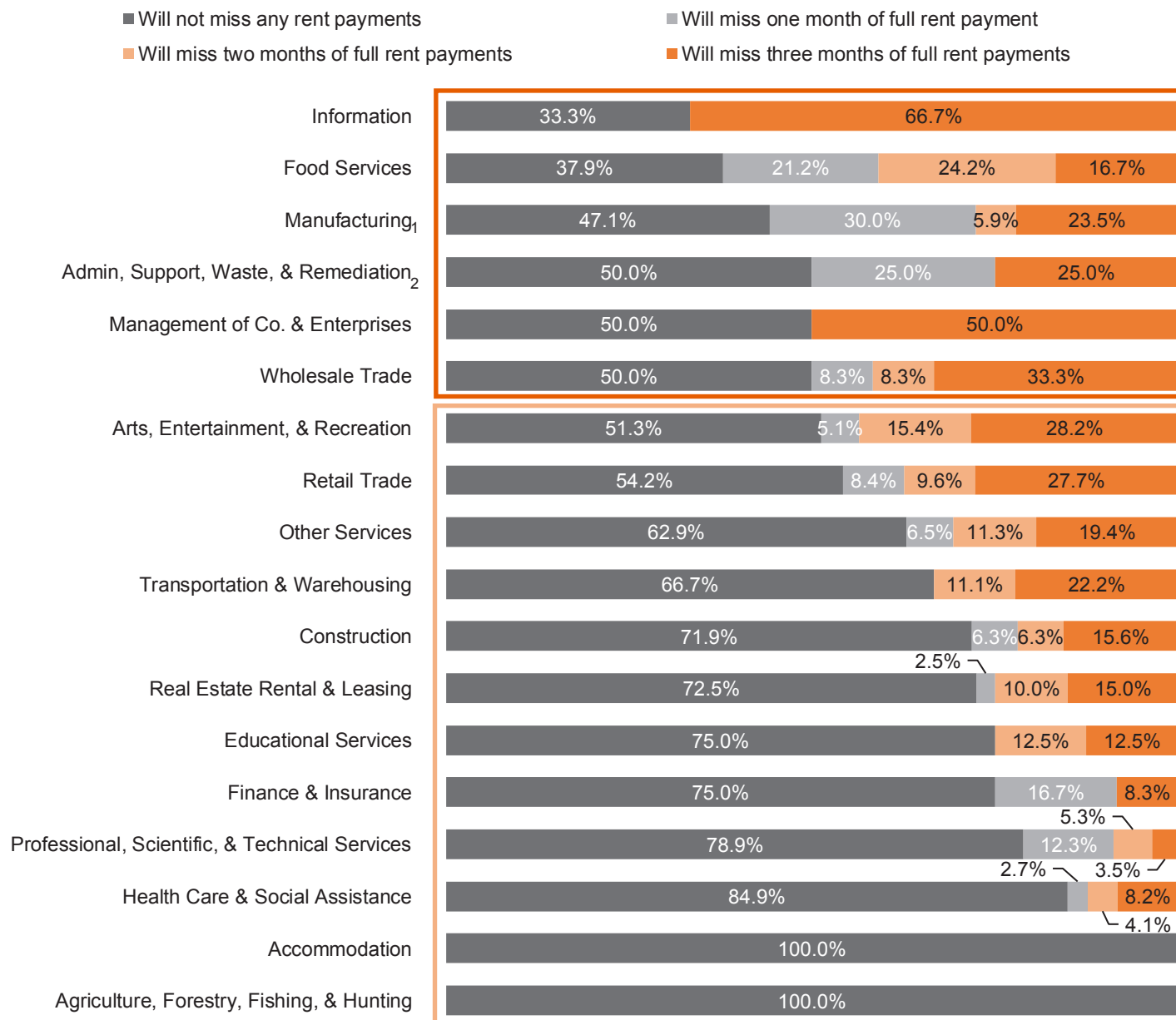
36.2% of businesses expect to miss at least one full rent payment between April and June 2021. (N=556)

1 in 2 businesses that expect to miss a rent payment expect to miss **3 months of full rent payments** between April and June 2021. (N=203)

2 in 3 businesses that are closed expect to miss **3 months of full rent payments** between April and June 2021. (N=555)



6 of 18 primary industries expect **half** of their businesses to miss at least 1 full rent payment between April 2021 and June 2021. (N=553)



¹Administrative & Support, Waste Management, & Remediation Services

²Management of Companies & Enterprises

1 in 4 businesses in the remaining 12 industries expect to miss **2 to 3 months of full rent payments** between April 2021 and June 2021. (N=437)

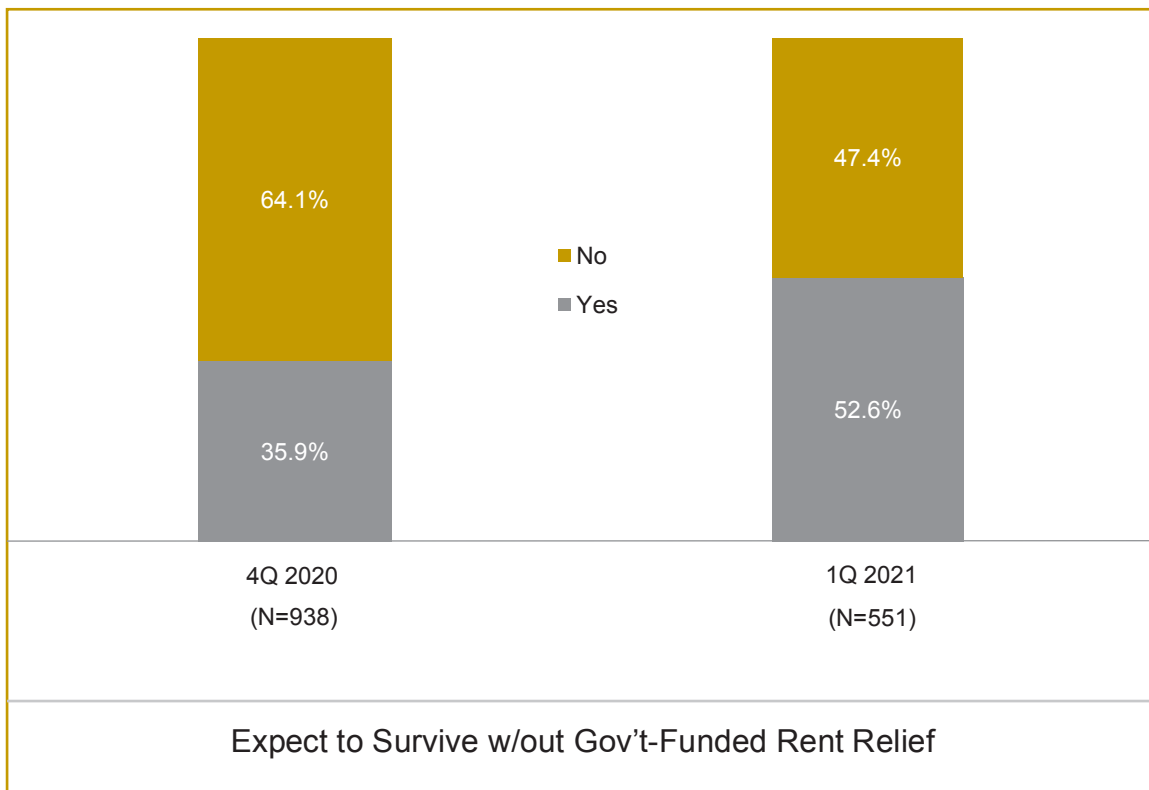
1Q 2021 Survivability Outlook: New Normal

1 in **2** businesses **do not expect to survive in 2021** without government-funded commercial rent relief.

52.6% of businesses expect to survive without government-funded commercial rent relief compared to **35.9%** in 4Q 2020.

2021 Outlook

(Sentiment Index)

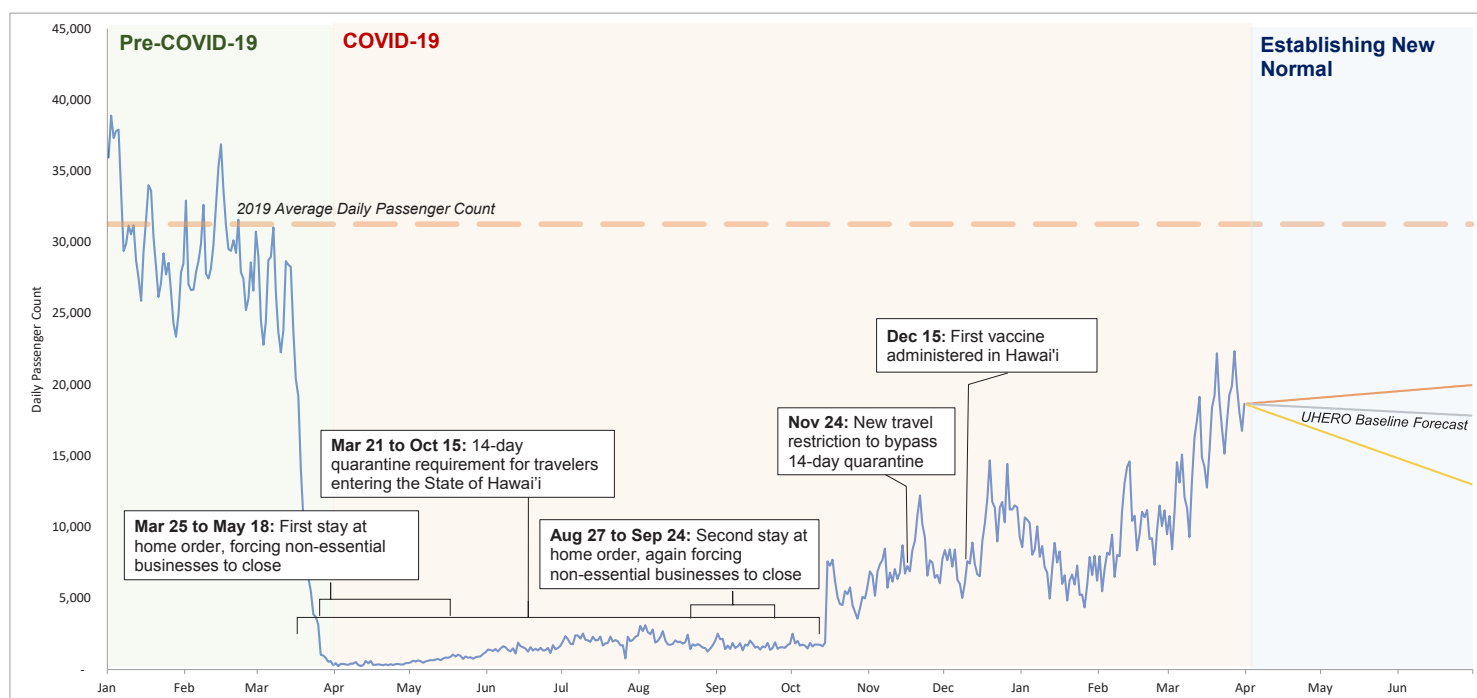


Conclusion

Various forms of government financial relief helped many businesses survive the effects of the pandemic in 2020. Businesses have begun to see revenue increase, but remain burdened by back rent and other expenses resulting from the pandemic as well as operating at reduced capacity.

Disproportionately impacted businesses have not been able to pay rent in full and expect to miss further rent payments in 2021. COVID-19 vaccinations are increasing locally and nationally and Hawai'i tourism numbers are climbing back. Businesses already operating with thin margins continue to struggle to break even before adding pre-COVID-19 lease rents combined with rent deferral.

Commercial rent relief is 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 Forecast for the State of Hawaii: More Substantial Recovery in Sight" UHERO, March 5, 2021

