

# HAWAI'I COMMERCIAL RENT SURVEY

IBMHAWAII 

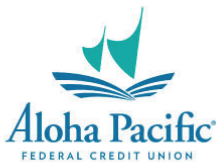


# Mahalo

to our partners for making this survey possible



HAWAII EXECUTIVE  
collaborative







Aloha,

Thanks to the wisdom of our government leaders to prioritize public health and our compliant citizens, our beloved State of Hawai'i has become one of the safest places in the world to live in and travel to. Our COVID-19 infection curve at ~1,250 infected and 22 deaths has remained relatively flat, placing Hawai'i's curve among the lowest in the nation.

A lockdown was imposed to achieve this remarkable outcome. Public gatherings of all types were canceled while lawmakers paused high "pedestrian traffic" areas of our economy including the majority of transient accommodations, restaurants and retail. Local households moved to self-isolation and practiced "work from home, stay at home." Businesses considered non-essential were mandated to close and passenger arrivals were held to a 14-day quarantine. As thousands of businesses shuttered their doors in unison, hundreds of thousands of employees stood in line for unemployment checks including a weekly Federal bonus to assist them with the pandemic hardship.



Of ~33,000 employer establishments statewide, banks administered ~\$2.5 billion in Paycheck Protection Program (PPP) funding to 75% of them. In total, nearly 25,000 businesses received PPP funding. How will the 3 out of 4 businesses that received PPP funding fare in the new normal? Congress recently extended PPP so the remaining 25% may receive PPP funding if they qualify. Mayor Kirk Caldwell launched a grant program to provide additional relief to these 75% of employer establishments along with smaller employers that may not qualify for PPP. This program could help up to 7,000 small businesses with financial aid. However, that still leaves at least 18,000 businesses, or 1 out of 2 businesses across the State of Hawai'i at risk.

During the last recession in 2008, a net 1,600 businesses closed representing 5% of employer establishments. Without additional funding, there will be severe damage to our economy. We could face over 5,000 additional business closures compared to 2008, which will cut essential tax revenue and jobs, and severely impact Hawai'i families. Keeping small business owners financially healthy and preserving their entrepreneurial spirit will drive a good economic recovery.



The Hawai'i Commercial Rent Survey highlights how responsive our government leaders, Department of Business Economic Development & Tourism (DBEDT), member organizations, banks, credit unions and others have been during this crisis and helps understand the economic scope of the pandemic in order to find solutions. This survey is a collaborative public and private effort and was designed by many of our State's leading experts.

The purposes of the Hawai'i Commercial Rent Survey are to determine whether current financial aid is enough for the employer establishments statewide, and to diagnose the outstanding need after these various programs including loan deferral are accounted for. As the economy reopens under new social distancing guidelines, local businesses will face difficult challenges in order to survive.

Some of the key findings confirmed what we have heard anecdotally:

- 2 out of 3 businesses had to close due to COVID-19, with food services, retail, and accommodations at risk;
- The 60% of businesses that remain closed – or are only partially reopened – expect to miss rent payments through the rest of the year;

This Final Report includes the survey results. Please contact me with any questions or concerns.

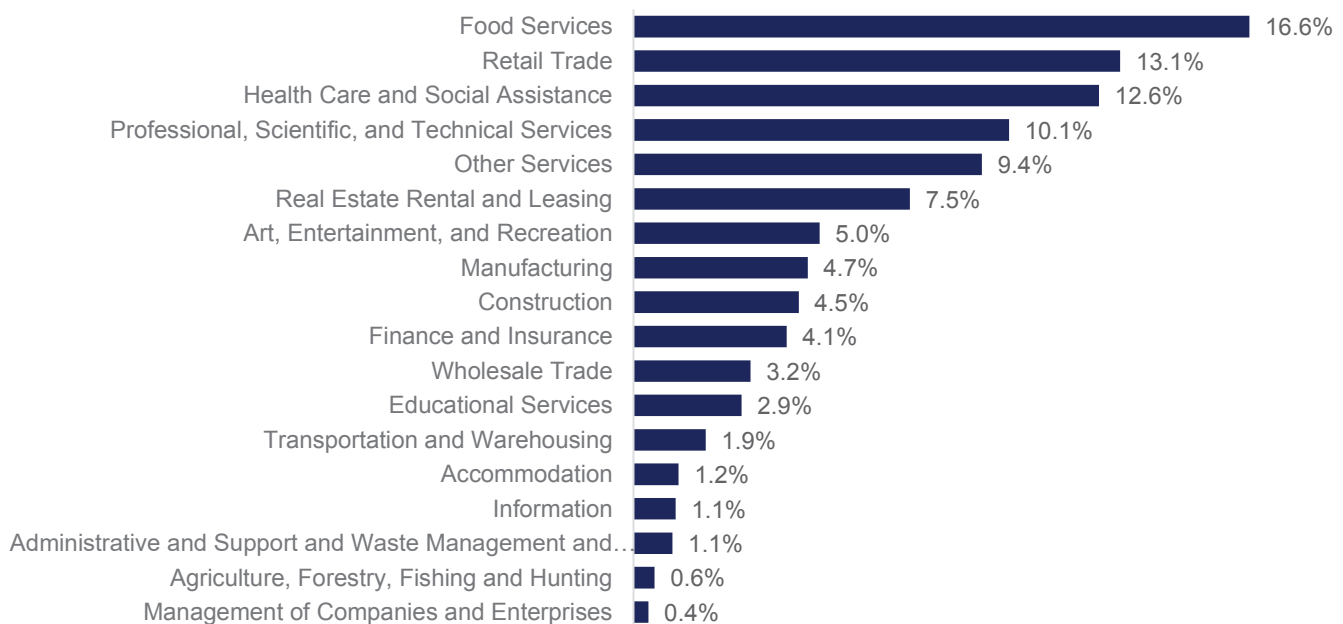
Sincerely,

Ryan Tanaka  
President  
Island Business Management, LLC  
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# Profile of Survey Respondents

**1,234** total business respondents broken down into **18** primary industries.

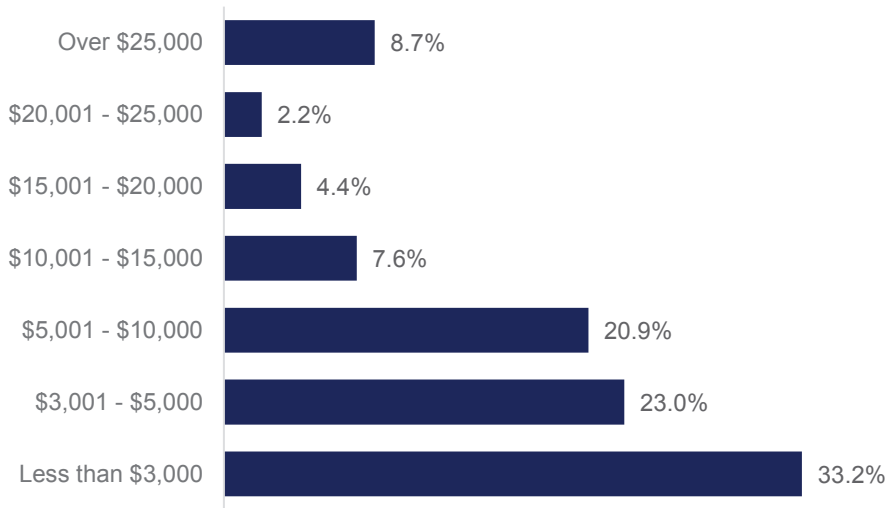
Nearly one-third (**29.7%**) are in the Food Services and Retail Trade industries. (N=1,234)



**68.5%** earned less than \$1 million in estimated annual revenue in 2019. (N=1,145)

**90.4%** employed under 50 full-time equivalent employees as of the end of 2019. (N=1,191)

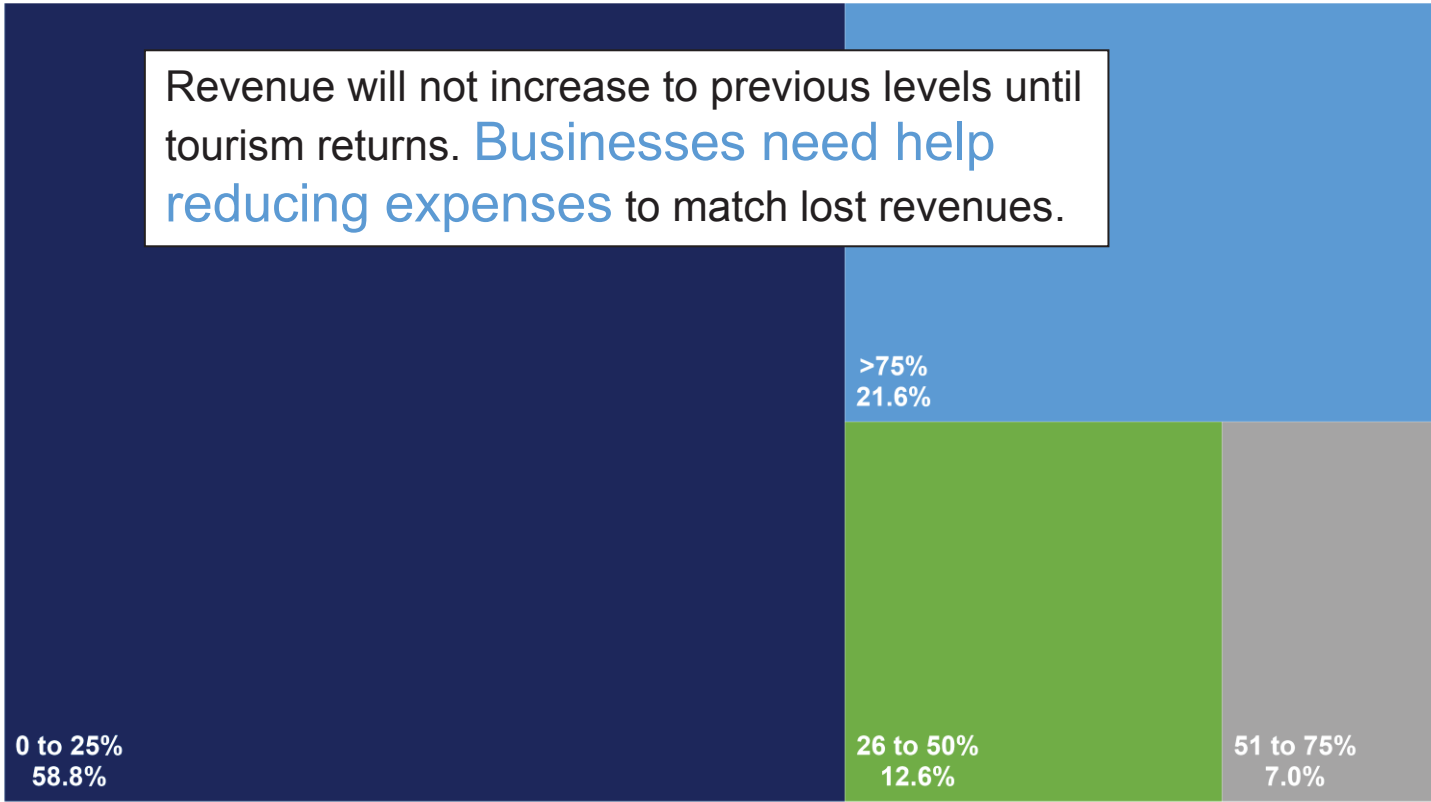
**78.4%** are tenants in buildings whose property owner is located within the State of Hawai'i. (N=992)



**77.1%** have monthly base-rent payments less than or equal to \$10,000. (N=970)

**75.9%** do not pay percentage rent above their base rent. (N=964)

**21.6%** report >75% of their revenue comes from tourism. (N=1,001)



# Rent: COVID-19 Impact & Relief

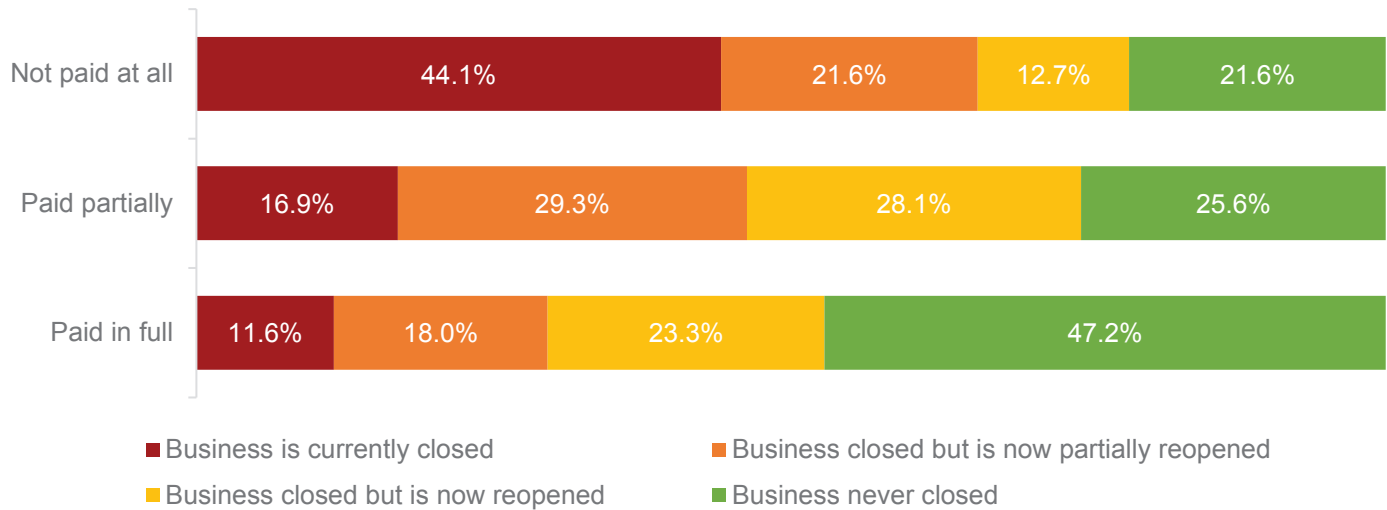
From April through June 2020, businesses reported whether they paid for rent in full, partially, or not at all.



The estimated total rent owed per month is **\$32 million** in partially unpaid rent (assuming 50% of rent was paid) and another **\$27 million** in fully unpaid rent. (N=970)

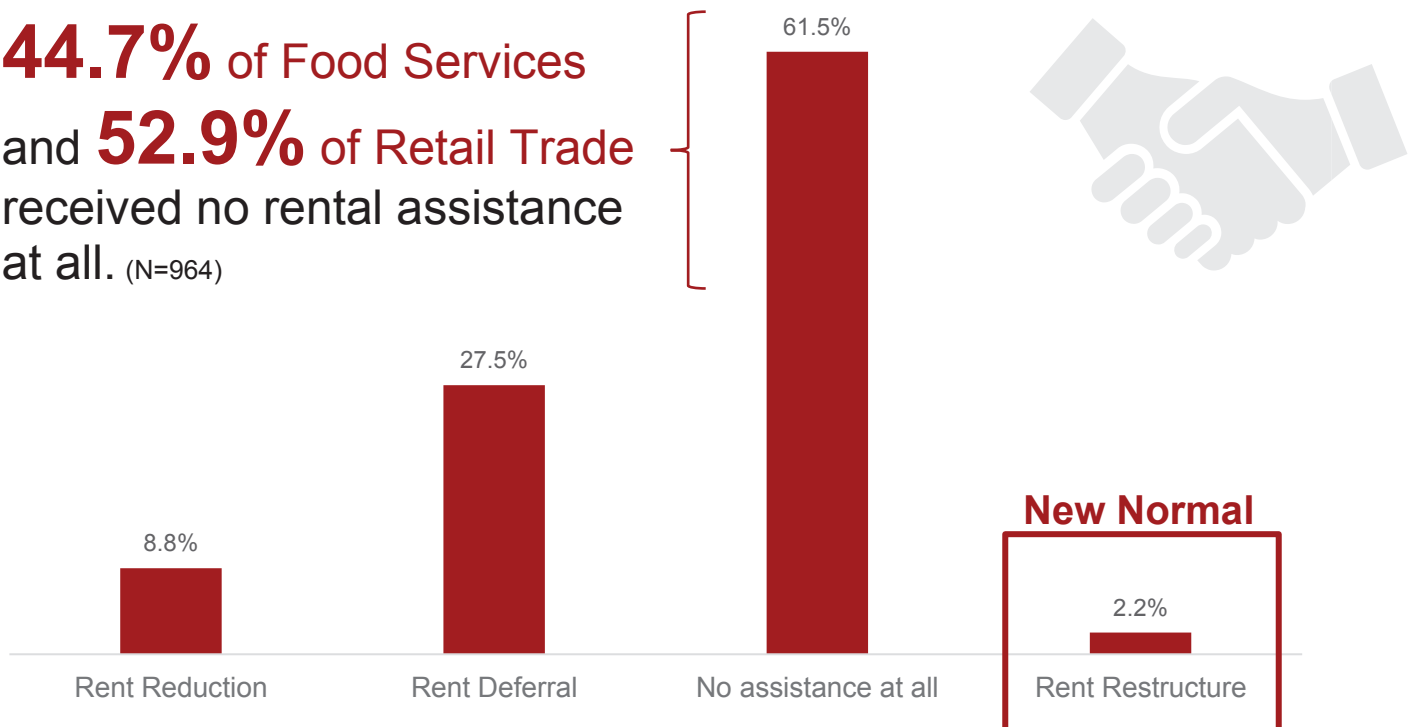


**44.1%** that have not paid rent at all are currently closed. (N=984)



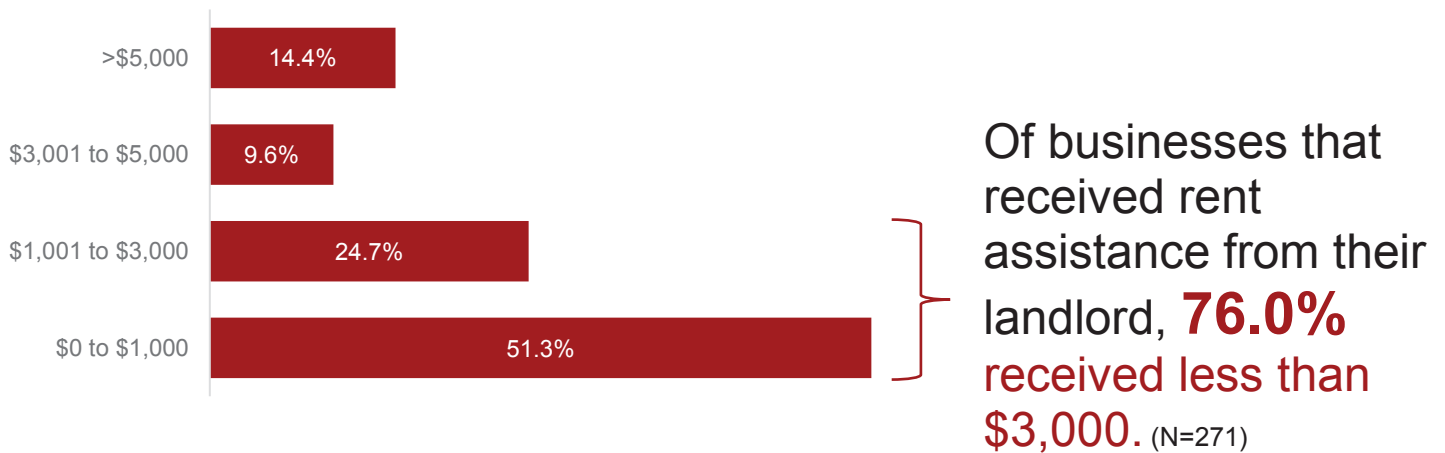
**61.5%** have not received any rental assistance at all from their landlord. Rent deferral was the most common form of rental assistance over rent reduction and rent restructure. (N=943)

**44.7%** of Food Services and **52.9%** of Retail Trade received no rental assistance at all. (N=964)





Only **2.2%** of rental agreements have been restructured as businesses enter the **new normal**. (N=943)



Businesses expected to miss rent payments through year-end:

**1** in **2**  
Retail

**3** in **4**  
Restaurants

**9** in **10**  
Accommodations

## Existing Business Relief Programs

**90.9%** received financial support from PPP and/or the Small Business Administration relief programs. (N=948)

**38.3%** received assistance from the City & County of Honolulu's grant to small businesses. (N=943)



**22.3%** received loan deferrals from their bank. (N=933)

# Impact of COVID-19 on Revenue & Operations

Majority of business (**60.2%**) closed due to COVID-19, and **37.2%** remain closed or have only partially reopened. (N=1,005)

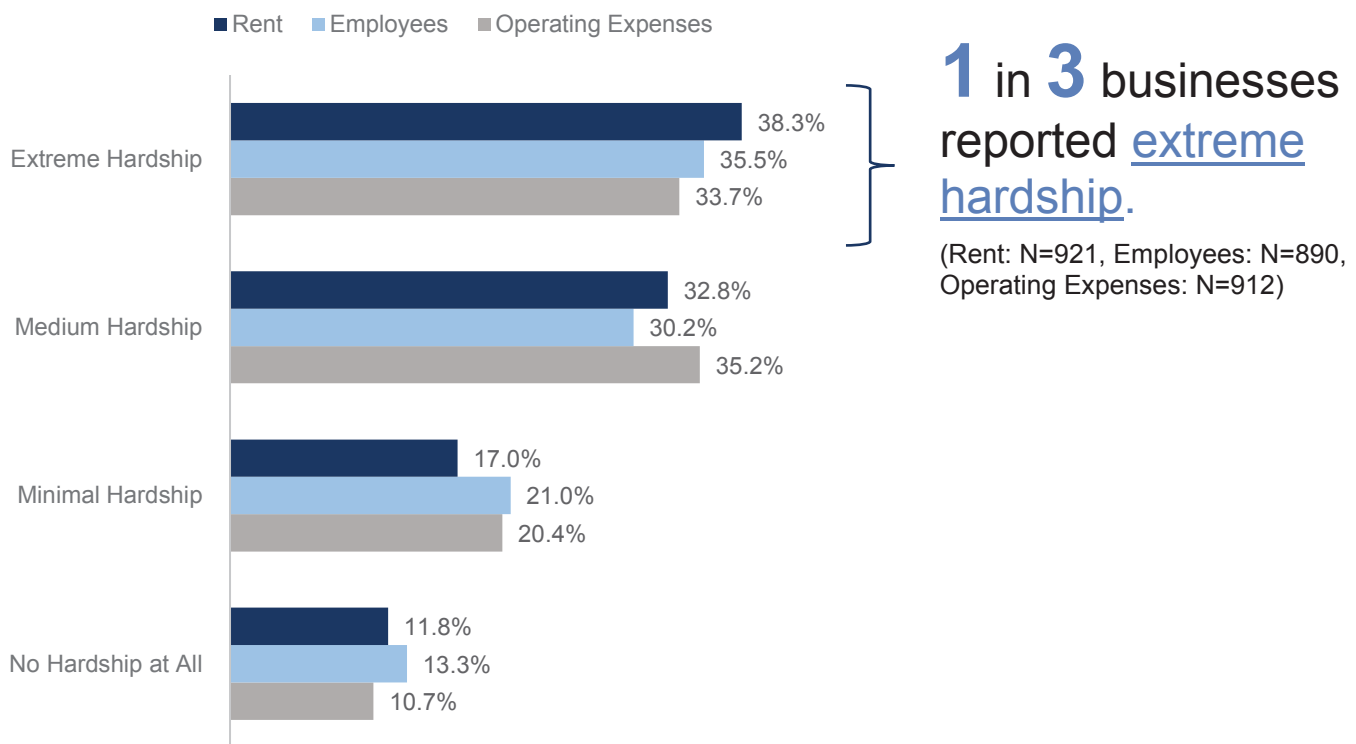
**39.8%** did not close.

**23.0%** closed but have now reopened.

**21.2%** closed but have now partially reopened.

**16.0%** closed and remain closed.

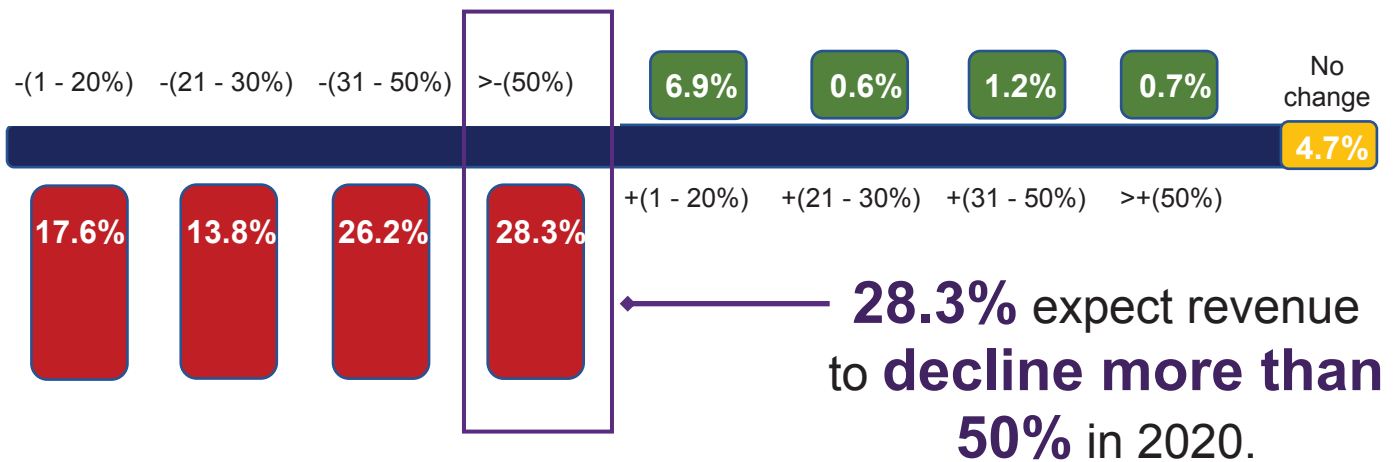
Majority of businesses reported some degree of hardship imposed by COVID-19 on their ability to pay rent (**88.2%**), employees (**86.7%**), and operating expenses (**89.3%**).



**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

# Business Outlook: New Normal

**85.9%** expect their annual revenue to decrease in 2020. (N=852)



**1 in 2** expects a decline in revenue of 30% to 50% in the new normal, including **77.6%** of Food Services and **65.0%** of Retail Trade. (N=852)

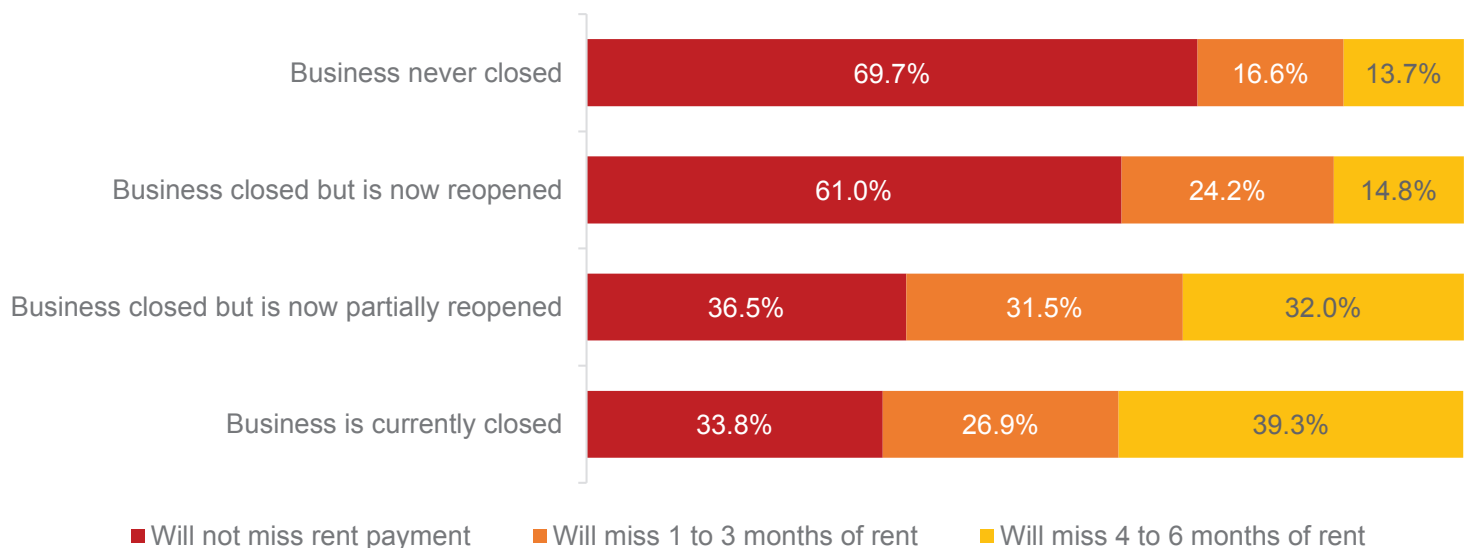


# Rent Outlook: New Normal

As Hawai'i's economy reopens and business operations resume, nearly half of businesses expect to miss rent payments through December 2020. This number may rise if COVID-19 cases notably rebound, and counties are forced to reverse their reopening plans. **The demand for rent assistance remains** as businesses anticipate more staff cuts and other reductions to survive.

**45.2%** expect to miss rent payments between June and December 2020 based on the expected market conditions in the new normal. (N=925)

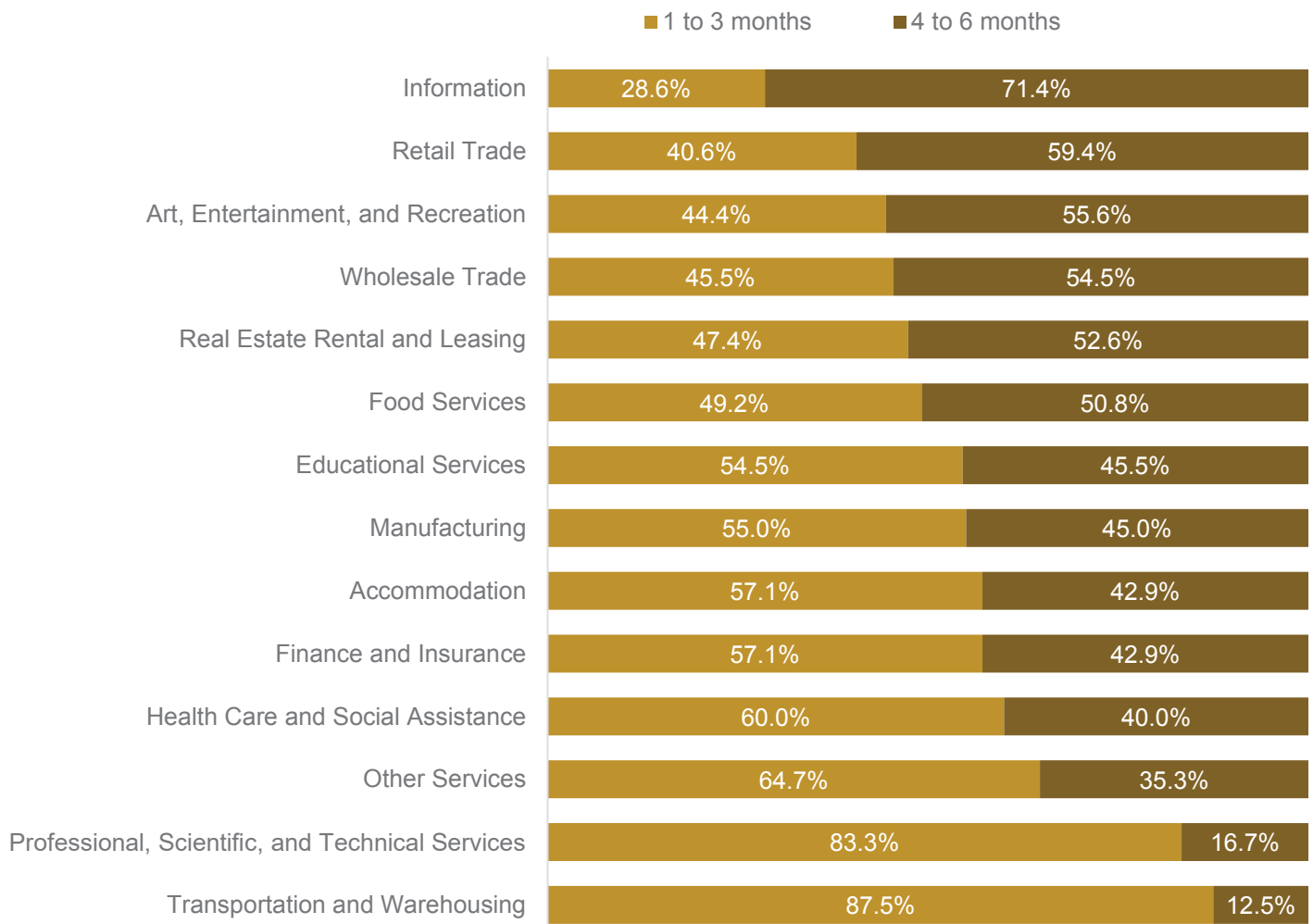
**2** out of **3** businesses that are currently closed – or partially reopened **will miss a rent payment** between June and December 2020. (N=946)





Of businesses that expect to miss rent payments, **48.5%** expect to be **unable to pay 4 to 6 months of rent in full** between June and December 2020. (N=392)

**59.4%** of retail businesses expect to miss **4 to 6 months** of rent. (N=392)

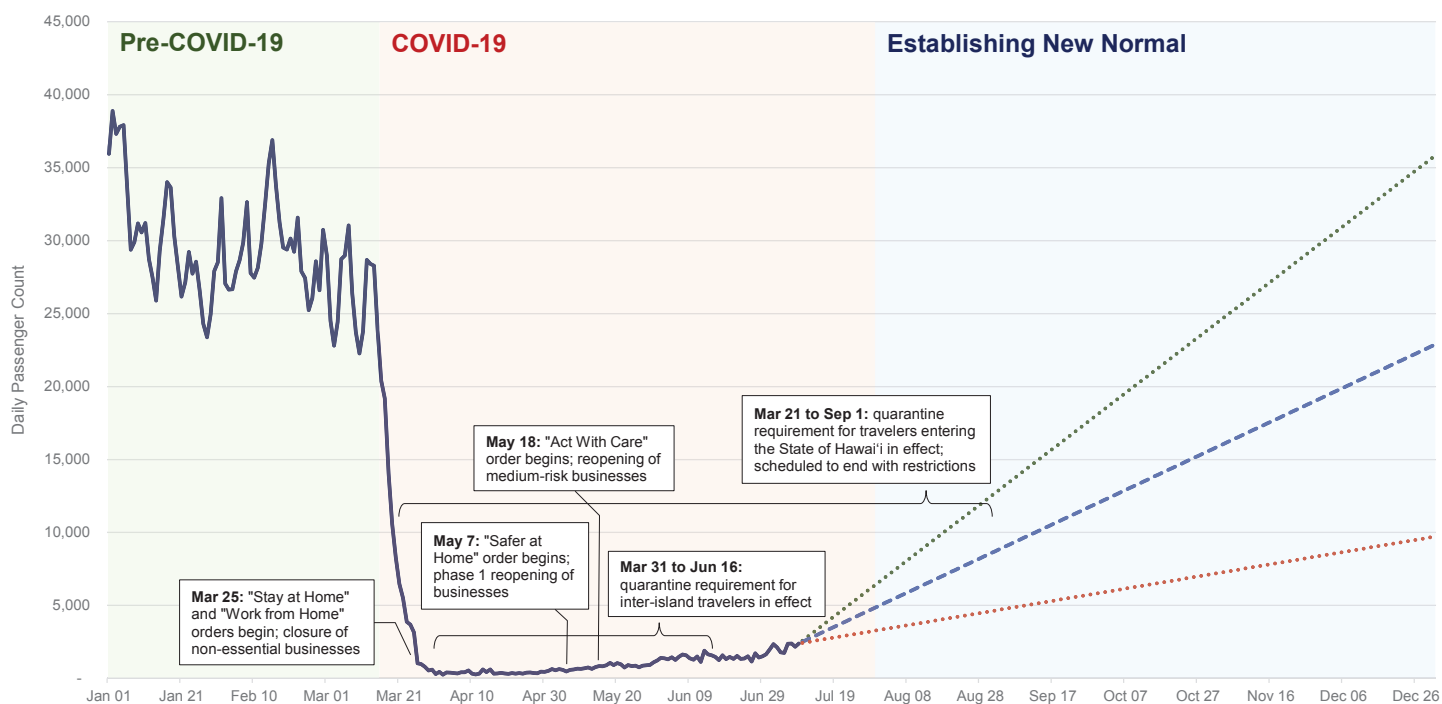


# Conclusion

Although temporary business closures may have reduced payroll and operating expenses, **rent is a fixed cost businesses must continue to pay**. Of the few businesses that have received some form of rent assistance, most received rent deferrals, which will only contribute to an increasing rent burden over the coming months.

Revenues in the new normal are expected to fall below pre-COVID-19 levels (for the next five years),<sup>1</sup> so businesses will struggle to pay off the accumulated rent burden. Because **counties are collecting property taxes in full**, landlords are left with few options but to continue to expect rent payments from their business tenants.

**Rent reductions will be necessary for many businesses to survive** and lease restructuring would allow landlords and tenants to redefine lease terms accommodating market conditions in the new normal. Financial aid for landowners would help incentivize them to do so.



<sup>1</sup> "UHERO Forecast with Scenario Analysis: Battered by COVID-19, Hawai'i begins to reopen," UHERO, May 28, 2020



