

Property group launches relief package for retail tenants

An industry-wide assistance and relief package for retail tenants that are hardest hit by the 21-day lockdown currently in effect in South Africa has been launched by the newly formed Property Industry Group. The initiative, which focuses principally on supporting affected SMMEs, will also provide relief and assistance to all other retail tenants and will be rolled out by landlords nationally.



Image source: www.pexels.com

The group, made up of the SA REIT Association (SA REIT), SA Property Owners Association (SAPOA) and SA Council of Shopping Centres (SACSC), has been coordinating its response to the Covid-19 pandemic, and specifically the economic effects of the lockdown. It collectively speaks for the commercial real estate sector in SA, which includes the country's large property owners.

Supporting large retailers

Although its primary focus is on SMMEs across all sectors, the group has also included providing support to large retailers affected by the lockdown. The initiative targets preserving jobs – for retailers, their suppliers and service providers. To qualify for the relief benefits, retail tenants will need to undertake not to retrench staff during the relief period.

Significantly, the package stipulates that all tenants whose accounts were in good standing at 29 February 2020, can be assured that there will not be any evictions for the next two months.

In addition, retailers prevented from trading in compliance with South Africa's government-mandated lockdown (non-essential services), and in good standing at the end of February 2020, are offered some form of assistance from landlords. The extent of that relief depends on the severity of impact.

SMME RETAILERS (categorised by the DTI as having annual turnover of up to R80 million)

| Category | Basic assistance and relief | Interest-free deferment recovery period |
|---|---|--|
| Level 1: Highly impacted retailers (e.g. companies selling time and services such as restaurants, hairdressers, travel agents, take-aways, etc.) | <p>April 2020</p> <ul style="list-style-type: none"> 35% to 100% of April 2020 rental and further potential relief could be in the form of rental deferments <p>May 2020</p> <ul style="list-style-type: none"> up to 50% of May 2020 rental and further relief could be in the form of rental deferments | Over six to nine months from 1 July 2020 |
| Level 2: Medium impacted retailers (e.g. companies selling product that doesn't have a limited shelf-life, etc.) | <p>April 2020:</p> <ul style="list-style-type: none"> 35% to 50% rental discount and further potential relief could be in the form of rental deferments <p>May 2020:</p> <ul style="list-style-type: none"> Up to 25% rental discount and further relief could be in the form of rental deferments | Over six to nine months from 1 July 2020 |
| <ul style="list-style-type: none"> Tenants' financial position and strength of balance sheet to be assessed by landlord to classify in an impact category Landlords have flexibility and discretion, on a case-by-case basis, to adjust parameters; however, minimums are set as the base guideline. Normal or better trading assessed considering rent-to-sales ratios, balance sheet, stock availability, etc. | | |

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NON-ESSENTIAL GOODS/SERVICES

| Category | Basic assistance and relief | Deferment recovery period |
|---|---|----------------------------------|
| SOE and Government tenants | No relief offered – 100% of rent payable (excl. temporary testing, laboratories and healthcare services housed free) | N/A |
| All retailers with annual turnovers above R80 million (including local and international listed/publicly-traded retailers and large unlisted retailers) | <p>April 2020:</p> <ul style="list-style-type: none"> 35% rental discount and 15% rental deferment <p>May 2020:</p> <ul style="list-style-type: none"> 15% rental discount and 35% rental deferment | Over six months from 1 July 2020 |

ESSENTIAL GOODS/SERVICES

| Category | Basic assistance and relief | Deferment recovery period |
|--|--|--|
| Retailers offering more than 75% essential services | No relief offered – 100% of rent payable | N/A |
| Retailers offering essential services but electing to close | No relief offered – 100% of rent payable | N/A |
| Retailers offering partial essential services, less than 75% | <ul style="list-style-type: none"> Essential goods/services – 100% of rent payable Non-essential goods/services – as per retailers with annual turnovers above R80 million <p>Pro-rated by essential goods/services turnover vs non-essential good/services turnover (or gross lettable area if specifically agreed)</p> | For non-essential goods/services portion: over six months from 1 July 2020 |

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Rental discounts

For April and May 2020, retail landlords will offer relief in the form of rental discounts where rental will be waived partially or fully and interest-free rental deferments where the deferred rental will be recovered later over six to nine months from 1 July 2020 onwards. Rental includes rent, operating costs and parking rental, but excludes all rates and taxes recoveries and utility cost recoveries, as well as insurance, which all tenants will be required to pay in full for April and May 2020.

Each landlord can use their discretion in the relief and assistance that they give a retail tenant, but the property industry package stipulates the minimum that qualifying retailers can expect.

Landlords will, on a case-by-case basis, also consider providing relief for office, industrial and hospitality tenants where the lockdown severely impacted the tenant and where it is justified. These tenants will negotiate relief terms directly with their landlords.



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Finding workable solutions

“We’ve seen retailers reverting to legal positions, but we don’t believe that litigation provides either side with timeous solutions needed to get through this unprecedented time. We need to stand together and find workable solutions that will benefit the country, protect jobs, and sustain our businesses through this challenging time. We believe what we are offering is balanced and addresses some of the key issues on both sides. It is an equitable way to protect both industries and, very importantly, looks after the drivers of employment creation - the SMMEs,” says Estienne de Klerk, spokesperson for The Property Industry Group and chairman of the SA REIT Association.

This assistance package comes at a massive cost to the property industry, which faces its own dire set of challenges. “But it is necessary for those that need assistance to get it, and for the small retailers that need it the most to get the support they need. Now is the time for bigger and stronger companies to step up and form a buffer to protect smaller retailers as a collective so that we can all come out of this stronger,” says De Klerk.



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Stimulus packages for extended lockdown

The package assumes that SA's lockdown doesn't extend beyond 21-days. "If this isn't the case, it is critical for stimulus packages such as those provided by the government, banking sector and Solidarity Fund to kick in to weather this storm," says De Klerk. The property industry package allocates less support to retailers that have insurance cover or receive relief from other sources in order to focus benefits on retail tenants that don't qualify for other assistance.

"It is important that business, labour, government, banks and other investors take decisions that don't jeopardise the country as an investment destination in the future when dealing with the Covid-19 pandemic. We believe our approach provides a level of certainty in the sector and protects an important part of the economy at a time when we most need that, and our options are quite limited," says De Klerk.

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