

Payment Gap: Retailers are reopening, but many aren't paying rent

June payments have been paltry, according to landlords and brokers; the recent unrest marked another setback

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From left: Bill Shopoff, Sandy Sigal, and David Simon

In just the last week, stores throughout Los Angeles went from closed to reopened to boarded up.

“There was retail momentum a week ago,” said Jay Luchs, vice chairman at Newmark Knight Frank. “Then all of a sudden the riots happened.”

Protests over the police killing of George Floyd and **bursts of looting** and vandalism that followed **damaged retailers** like Nordstrom Rack at the Grove and the Record Collector on Melrose Avenue. They also mark the latest setback for brick-and-mortar stores, which were battered by the statewide coronavirus lockdowns, on top of consumers’ steady shift to online shopping.

Perhaps the clearest sign of turmoil in the L.A. market is that many retail leases are still not being paid, according to brokers and landlords interviewed for this story. That reality comes just days after Gov. Gavin Newsom **greenlighted the reopening** of clothing and beauty care stores, hair salons and other retail venues after the long lockdown.

Many landlords say they will give retailers another month to defer rent payments. Others, like Simon Property Group, the nation’s biggest mall owner, have had enough. Simon **recently filed** a \$66 million lawsuit against the Gap for failing to pay rent at its stores.

A report released Thursday by Woodland Hills-based real estate analytics firm Datex Property Solutions showed dozens of chain retailers did not pay rent in May.

The report, compiled from the company's roster of national landlord clients, points to the Gap and its subsidiary Old Navy, along with H&M, Tilly's, Bed Bath & Beyond, Pier One, and Bath & Body Works as each paying less than 10 percent of their May rent.

While those retailers and others can now open statewide, it doesn't mean they will start paying rent at their locations.

Broker-mediator

Irvine-based Tilly's, a Southern California mall presence for its surfing and skateboarding gear, did say in a public filing Wednesday it would resume paying rent at 160 of its 239 stores that recently reopened.

"For stores that we have reopened, we have paid June rents," said a company spokesperson. "We continue to negotiate with landlords regarding the unpaid April and May rents given we were not able to operate our stores to generate any sales."

But Tilly's stands as the exception.

Sandy Sigal, CEO of Woodland Hills-based mall landlord Newmark Merrill, said June collections have not improved much from April and May at his 80 shopping centers. Retailers and shoppers are still adjusting to a world with face masks and social distancing.

"My sense is that it will take until the end of June for businesses to get into the new rhythm and deal with the operational costs and occupancy restrictions," he said. "I think July will be the first good test of the ability of tenants to pay fuller rent."

Bill Shopoff, of Shopoff Realty Investments in Irvine, said he hasn't seen an uptick in the number of his shopping center tenants who paid June rent. But he struck a note of understanding and optimism.

"It takes capital to bring their employees back and get their stores ready for customers," Shopoff said. "I think the impact will be more favorable for July than June."

For Shopoff, collecting rent during a pandemic is **more art than science**, as the landlord works with each tenant to determine how much they can afford. He has also offered help with federal small business loan applications.

Newmark Knight Frank's Jay Luchs said the coronavirus has turned him into a mediator of sorts.

Instead of cutting new lease deals, he is a go-between, negotiating with landlords and tenants to hammer out rent deferrals. In many deals, landlords have let tenants defer rent for three months from April through June, with the idea that tenants would start paying in July and begin back payments next year.

But landlords acknowledge this already tenuous plan may have been upended by the recent incidents of vandalism and looting, which prompted a curfew that has since been lifted.

Nearing the breaking point

Part of the dynamic in retail is that chain tenants like Gap and Bed Bath & Beyond can rival the size of their landlords. "The good owner-operator of a retail portfolio knows how invested they are in the success of their tenants," said Datex Property's Mark Sigal.

He said up to 60 percent of retail landlords nationwide have sought some type of rent deferral.

But some retailers aren't asking.

In April, Gap Inc. suspended rent payments at its more than 2,700 retail stores across the country. During its earnings call on Thursday, Gap Chief Financial Officer Katrina O'Connell maintained the company was "in active and ongoing negotiations with our landlords to work through this crisis together." She added those discussions included efforts to "abate a portion or all of the suspended rent."

Some landlords have reached their breaking point. Simon is one of them.

The mall owner is suing the Gap for millions in back rent at 400 stores nationwide. Locally, mall owner Vestar sued Gap subsidiary Old Navy last month, saying it skipped out on a combined **\$100,000 in April and May rent** at two stores in Glendora and Pico Rivera.

The lawsuits — and dozens of others like them nationwide — will test whether the coronavirus can be a valid legal reason for withholding rent or skipping it altogether.

“That is an unknown for everybody,” Luchs said.
