

## Initial Commercial Market Effects Due to COVID-19 Crisis

Quarter 1 figures for commercial real estate across the board were positive. However, late March hit the market with an unprecedented situation that has slowed activity down drastically and has made buyers and tenants cautious. Retail, restaurants and hotels are expected to have the largest hit on both vacancy and rents from the fallout. According to CoStar analytics, the LA retail markets experienced the lowest activity levels since the pandemic began in late March during a single month since their dataset began in 1996. Another factor that will affect retailers and restaurants even after they reopen will be limits on capacity and loss of scared consumers who do return to stores and restaurants initially.

The LA office market was experiencing vacancies near a decade low. Since the end of March, the leasing activity has decreased significantly reaching the lowest levels of activity since CoStar began tracking in 1996. Vacancies are expected to increase to levels higher than the recession of 2008. This trend is expected to continue through the middle of 2021 and begin to improve at a moderate rate. The office sale market in LA saw a forty percent decrease in volume in March and April from the previous year.

The industrial sector has been the least affected market. Vacancy rates, for now, have continued to maintain low levels and the activity has only slightly decreased. Construction activity for industrial has continued to slightly increase due to demand from logistics and e-commerce companies.

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Banks are also boosting their reserves in order to prepare for potential losses. The \$2 trillion federal coronavirus stimulus, as well as multiple liquidity efforts the Fed has launched since the outbreak, should help U.S. financial institutions. However, banks are likely to experience rising loan modifications as well as significantly higher charge-offs. There are still concerns over smaller community banks withstanding defaults and losses which will likely have a significant effect on the financial system. The treasury began issuing bonds to cover the COVID-19 debt in May. Commercial loan originations are expected to increase with banks being more selective, tightening loan-to-value ratios and increasing debt service coverage.

Source: CoStar Insight newsletter

**Current SBA 504 25-Year Fixed  
Effective Rate for  
May 2020 is 2.758%**

## California Senators Push Commercial Eviction Moratorium

California legislators have proposed a bill that would allow commercial tenants who have been closed due to the pandemic to have more than one year to repay rents without facing interest payments or eviction. Senate bill 939 would take effect immediately and be retroactive from March through December of 2021 or two months after the state of emergency ends- whichever is later.

The bill advanced this past Friday by the committee. It was initially proposed as a statewide rent moratorium. However, last week it was amended to give smaller businesses

the ability to renegotiate their lease. If they lose more than forty percent of their revenue due to emergency government restrictions. This also goes into effect if the business is required to operate at a limited capacity due to social distancing requirements.

If the landlord and tenant do not reach a mutually satisfactory agreement within thirty days of the landlord receiving the negotiation notice, the tenant is able to terminate the lease without liability of future rents, fees or costs that would have normally been due under the lease.

The other side of the issue that has been raised are the effects on the landlords. They have to continue paying their mortgage payments, property taxes and insurance. This could cripple many property owners and cause defaults and foreclosures. California Business Properties Association argued that it is unconstitutional for a state to pass a law impairing the obligation to contracts, and warned it would "allow one party to unilaterally abrogate real estate leasing contracts." This bill is in the favor of the tenant completely and does not share the spirit that "we are in this together" through these unprecedented and challenging times.

Source: CoStar Newsletter May 14, 2020 and Commercial Observer Article May 25, 2020

## 5K SF Fully HVAC Warehouse Space



**5K SF with 1,500 SF of offices.**

**Gated yard shared with landlord with electronic gate and additional parking.**

**Four private offices, two restrooms, high ceilings, 400 AMP power distributed throughout and 10'x14' grade level loading door.**

**Temperature controlled warehouse area, sprinklers and bonus mezzanine.**

**Please contact me for more information.**

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**Linda specializes in commercial and industrial sales and leasing throughout the San Gabriel Valley. She has extensive knowledge in 1031 exchange transactions, investment opportunities, and market analysis. Feel free to contact Linda with any questions or requests for information.**

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