2021 Lease Lifecycle Management **Trends Report**

How the COVID-19 Pandemic Affected Landlords and Tenants

VISUAL LEASE

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Introduction

Leases are incredibly complex.

They contain lengthy, specific legal information that's often difficult to interpret. And they are commonly one of the most expensive business costs.

Whether you're a landlord, a tenant or an accountant, you may be wondering what are some lease trends in the market that you should be considering in 2021?

In this eBook, we uncover lease trends in the US since the outbreak of the coronavirus pandemic.

We polled a sample of our 700 customers (including both public and private organizations) to learn how their organizations and leases were impacted since March 2020.

From office closures to rent relief and beyond – read on to learn what a cross-section of our lease management and accounting software customers had to say.

Foreword from a Lease Strategy Industry Expert

JOE FITZGERALD | VISUAL LEASE
SVP, LEASE STRATEGY

This past year was disruptive for many. The outbreak of the coronavirus (COVID-19) in early March 2020 caused unexpected shifts and changes for companies of all sizes and industries.

As businesses transitioned to a temporary (or for some companies permanent) remote work environment, industry experts speculate that the leasing industry, particularly commercial real estate, has changed forever. This year, companies were forced to make tough decisions regarding their leased commercial spaces. From office closures and consolidations, to deferrals and more – many of these decisions will have long-term impacts beyond the pandemic.

As we round the corner to 2021, how will these decisions continue to affect businesses and the leasing landscape? What will be the long- and short-term impact of the adjustments made to leases? And lastly, how will the overall changes within the past year impact company finances and operations going forward?

If you're in accounting, you know that leases impact more than just vendor payments. Lease terms and financials also play a critical part of business valuation calculations due to lease accounting standards (ASC 842, IFRS 16, GASB 87). This means any financial changes or adjustments made to lease agreements as a result of the pandemic this year will need to be captured and identified within balance sheet financials.

Our goal with this report is to provide you with critical insight into how the leasing market has changed in the wake of the pandemic, so you can make better decisions now and throughout 2021. Marc Betesh, Founder and CEO of Visual Lease, and I have been subject matter experts in the lease management and accounting landscape for a combined 75 years. Within this eBook, we've added our commentary regarding the results of this survey.

Joseph P. Fitzgerald

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Revenue Impact of the Pandemic

The severity of the pandemic affected nearly all industries – including manufacturing, retail, software, food and beverage, business services and more. While some industries were impacted more than others, **roughly three in five (59%)** companies overall reported a loss in revenue since the start of the COVID-19 outbreak in March 2020.

Fortunately, most of those companies – or **four out of five (80%)** – expect the financial impact of the pandemic to be short-term. In fact, many claim to have already recovered or plan for recovery to take up to a year or less.

That said, for the remaining 20%, the financial impact of the pandemic is expected to be unrecoverable.

59%

reported a loss of revenue

80%

Expect the financial impact on their business to be short-term

Weighing In
Expert Opinions

"Twenty percent is a lot of companies impacted for the long-term. It's upsetting to see certain industries experience a common decline, such as brick-and-mortar retail."

Joe Fitzgerald
SVP, Lease Strategy,
Visual Lease

"Unfortunately, the longer the economy is suppressed due to the pandemic, the more likely there will be secondary negative impact on the affected sectors."

Marc Betesh
CEO & Founder,
Visual Lease

Companies who struggled to meet revenue goals due to the pandemic are more likely to seek opportunities to save money – and leases have proven to be one of the main ways that companies sought economic relief this year.

Identifying Necessary Cost Savings

As companies struggled to achieve revenue goals throughout 2020, many turned to their commercial office leases to identify opportunities to cut costs.

Of the companies surveyed, **50%** received monetary relief to combat the challenges associated with COVID-19.

The biggest source of rent relief came from state/federal sources, i.e., PPP loans (26%), however some leveraged insurance policies, lawsuits and other forms of relief.

50%

PPP Loans	Insurance Policies	Lawsuits

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RENT RELIEF

Companies struggled to identify ways to pay their rent – and some hesitated to do so while their offices remained closed. State closure mandates and business shutdowns have occurred across the nation throughout 2020.

Survey findings showed **one in five (20%) companies** utilized relief funds toward rent obligations during business shutdowns.

For half of companies reported, this covered 1-2 months' rent, and for the other half, this covered 3-4 months' rent.

Landlord Assistance

While many companies struggled to meet their monthly rent, **54% of companies received some form of rent relief directly from their landlord.**

Of those receiving assistance, the most popular forms of relief provided were:

- **17%** rent deferral
- **13%** rent reduction
- **13%** rent abatement
- **6%** early termination of lease
- **4%** application of security deposit toward the rent
- **1%** downsizing to a smaller space

These are not exclusive to one another; some companies leveraged more than 1 strategy during negotiations with their landlords.

Average Length of Rent Deferral

The majority (79%) of companies received rent deferral for 2-3 months.

Although, some companies (11%) were provided rent deferral for 4-6 months, and others (11%) for 6+ months.

2-3 months

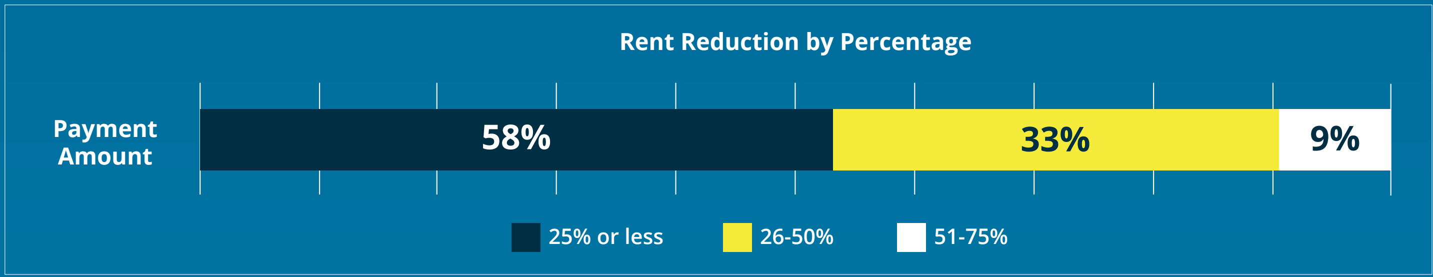
The average amount of time companies received rent **abatement**.

JF: It's unsurprising that rent deferral was the most common form of rent relief offered by landlords. Rent deferral does not change the amount owed, but rather shifts when the payment is due.

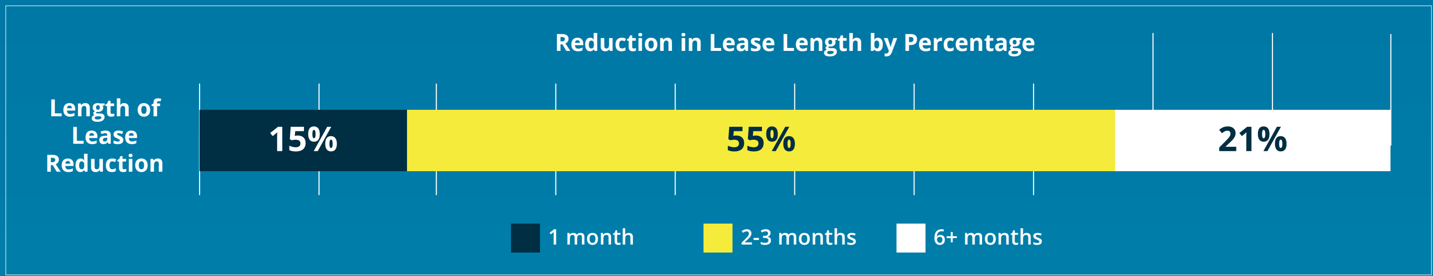
MB: In most cases, landlords are not waiving rent, but rather allowing the tenants to defer it. This does not have a material impact on their financials. If, on the other hand, there is a rent reduction or waiver, then for lease accounting purposes, the financials need to be restated.

I do expect to see a number of companies reducing their footprints in 2021. It isn't clear what the final outcome will be from this pandemic, but there is clearly a reduction in demand for leased office space due to companies electing to have their employees work remotely.

Rent Reductions



Payment Amount
58% of companies received a rent reduction of 25% or less, 33% received a reduction of 26-50% and the remaining 9% received a reduction of 51-75%.



Lease Length
55% of companies received a rent reduction for 2-3 months, 21% received a reduction for more than six months, 15% received a reduction for one month and 9% received a reduction for four to six months.

JF: Customers who reported receiving a rent reduction most commonly received it for 2-3 months. As we enter 2021, it will be interesting to see how this may change – and if companies will seek additional opportunities to lower their rent, if needed.

Changes to Office Space

The real estate lease landscape significantly changed throughout 2020. With non-essential business office closures and an increase in remote work opportunities, many anticipated the need to reduce their leased office and/or building space.

However, at the same time, a small percentage of companies predict that they may need to add more space to their leased office and/or building locations.

Downsizing Office Space

39% have no plans to downsize

37% are considering or already planning to downsize

18% have already

16% plan to downsize before the end of 2021

Increasing Office Space

66% have no plans to downsize

30% are considering or already planning to downsize

3% have already downsized

JF: The biggest takeaway is that nearly 40% of companies are moving (or have moved) in the direction of reducing their office space – with another 1/4 of companies undecided and a very small offset of companies that plan to increase their footprint. Some companies have already relocated their offices to smaller suburban locations rather than large, urban city centers. I expect this trend to continue.

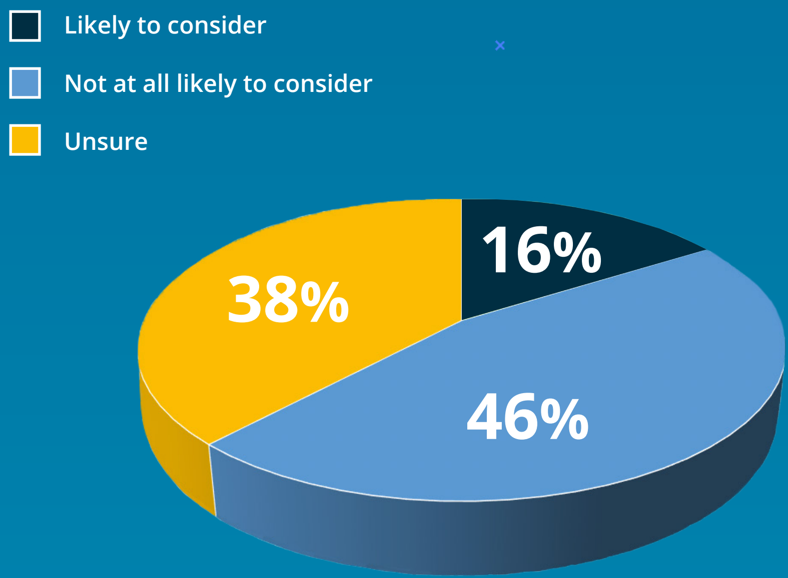
MB: I believe there will be a permanent shift in the way people work, but that most companies are not yet resolved on what that is going to look like. To the extent that people are adjusting their businesses to work remotely, there will be a net reduction in demand. Companies are already seeing that they can have remote workforces and therefore don't need quite as much office space. The big unknown is whether or not people will enjoy working in that matter on a long-term basis.

Coworking Space

Coworking offices provide workers the opportunity to share a common job location with others. This can be an appealing business model for remote departments and smaller organizations; 2020 presented unique challenges for both lessees and lessors in this space.

As employees shift to embrace remote work environments, only **16%** of Visual Lease customers surveyed said they would be **at least somewhat likely** to consider leasing a co-working office in the future as an alternative to leasing larger facilities.

Nearly half **(46%)** of survey respondents said they are **not at all likely** to consider leasing a co-working space in the future as an alternative to leasing larger facilities.



JF: The market has seen a boom in work-from-home opportunities, and therefore, not as many companies or people are looking to lease out coworking spaces.

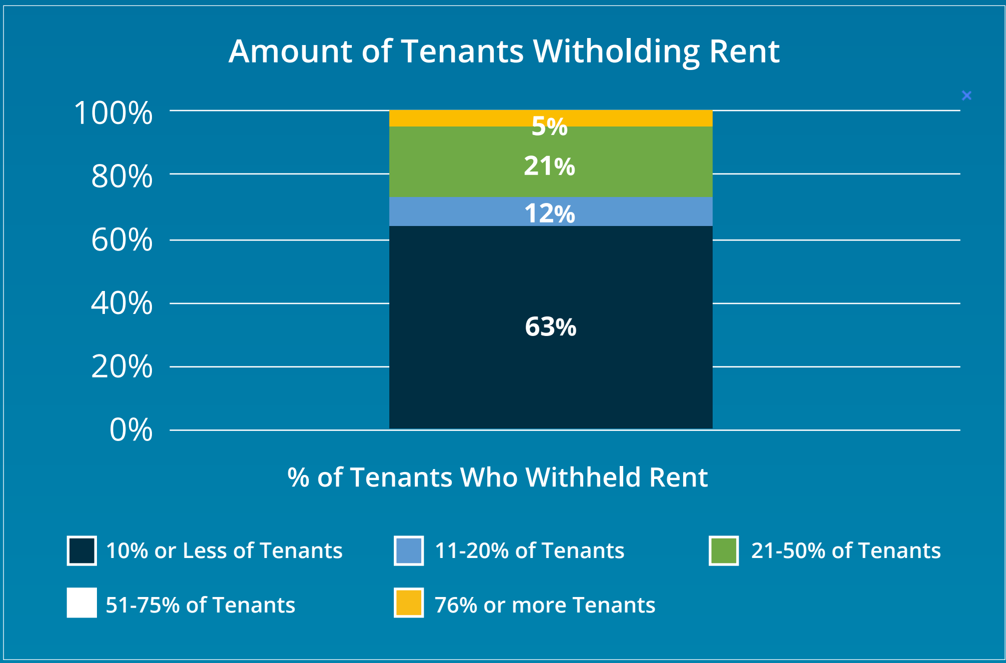
MB: With an increase in remote working, companies will likely need places for remote workers to congregate. I'm not sure what this will look like in terms of demand, but the current trend is for organizations to move away from centralized locations into a more decentralized environment.

Coworking spaces outside of the central business districts may likely see more demand. I don't believe that there will be an overall shift to coworking spaces like there was pre-pandemic. However, I will be curious to see if there will be a shift in attitude when companies begin returning to the office.

Subleases

A sublease permits tenants to rent out their leased space to another tenant for a defined period of their lease.

Overall, the majority of the companies surveyed that have sublease tenants **reported very few of their tenants have withheld rent since the start of the pandemic lockdown in March 2020.**



63% indicated that 10% or less of their tenants have withheld rent since the start of the pandemic in March 2020

12% have had 11-20% of tenants withhold rent

20% have had 21-50% of tenants withhold rent

5% have had 76% or more of their tenants withhold rent

In addition, of those who had sub-lease tenants withhold rent:

38% said that their tenants have paid a portion of rent

30% said their tenants have paid no rent

MB: Withholding rent for any appreciable time is an indication of financial instability on the part of the tenant or subtenant. If a tenant or subtenant is unable to pay their rent, there are deeper issues at play. The bigger trend is the weakness in the economy resulting from the sustained effect of the pandemic, which may cause businesses to close. That is where we will see material shifts, rather than in temporary rent relief adjustments.

Important Lease Clauses in 2021

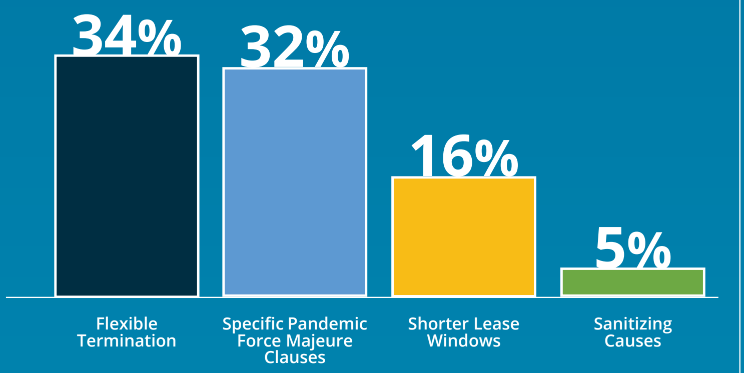
Lease clauses offer necessary legal protections for both tenants and landlords. When the pandemic hit, organizations scrambled to identify protections (i.e. force majeure clauses) in their leases in attempt to save costs. However, force majeure does not typically extend to pandemics or other public health crises.

As a result, the pandemic introduced the need for added protections, including pandemic-specific lease clauses and/or shorter lease commitments.

In the future, companies will look to incorporate added flexibility and new protections in their leases given the current circumstances.

The Most Important Lease Clauses to Consider in the Future

Future real estate leases could see an increase in these protective lease clauses:



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JF: For the foreseeable future, flexibility will be a critical clause that both tenants and landlords will look for. This, however, would likely come at the additional cost to terminate, i.e. higher termination penalties. Due to the lack of lease flexibility over the last few months, companies such as Victoria's Secret and Gap sought out expensive lawsuits against landlords to terminate their leases during the turmoil of the pandemic.

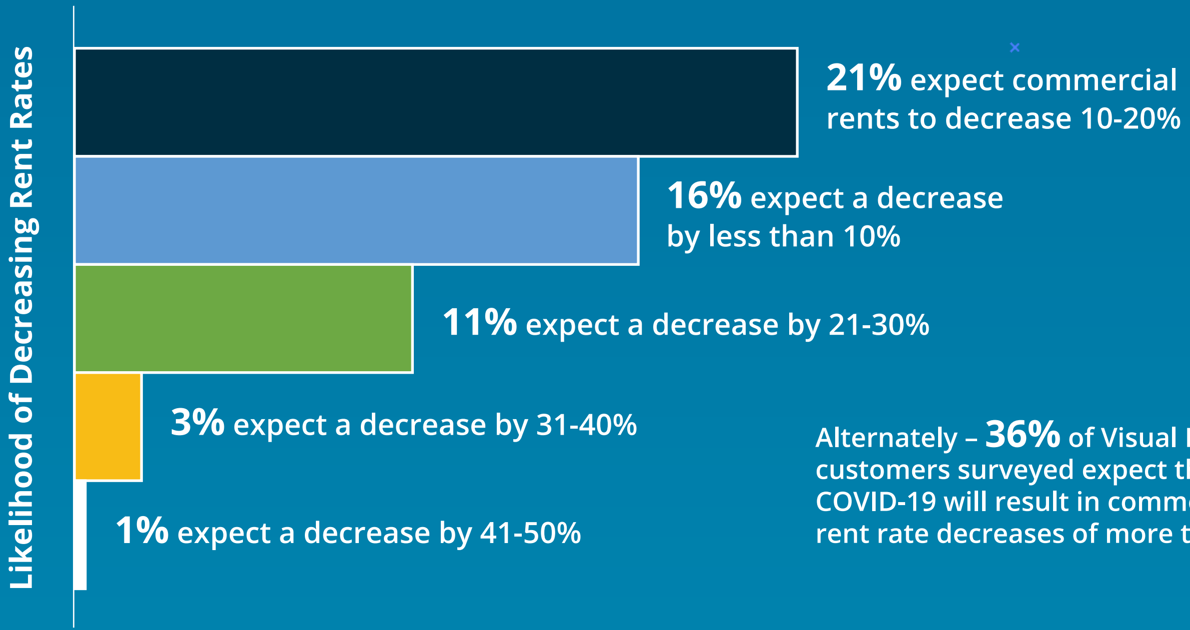
MB: As has been the case many times in the past, when new situations present themselves, attorneys scramble to find ways to protect their clients. The coronavirus has presented numerous unique challenges that had never been encountered before. Right now, these our top of mind in current lease negotiations.

Tenants and their attorneys will begin to ask for the inclusion of pandemics in force majeure clauses. We'll likely see landlords respond by securing more expensive business interruption insurance to protect them against such risks. I believe that including pandemics in force majeure clauses is a trend right now but may grow less important over time.

Impact on Commercial Rent Rates

Of the Visual Lease customers surveyed, more than half **(53%)** expect COVID-19 **will have some impact on commercial rent rates**.

The majority of the companies surveyed, however, expect a likelihood of significant rent decreases due to the pandemic.



Alternately – **36%** of Visual Lease customers surveyed expect that COVID-19 will result in commercial rent rate decreases of more than 10%.

MB: Increased flexibility comes at a price. If tenants want flexibility in their leases, landlords will find it more difficult to finance their buildings – which will ultimately drive up rental prices. Tenants will have to pay a premium for that flexibility. I expect standard market forces to determine how important these clauses will be and whether tenants will be willing to pay that premium in the future.

Renewals & Terminations

38% of Visual Lease customers surveyed said that COVID-19 related terminations have impacted the number of lease agreements under their management.

25% said that lease agreements under their management **decreased** by less than 10%.

4% said that lease agreements under their management have **increased**.

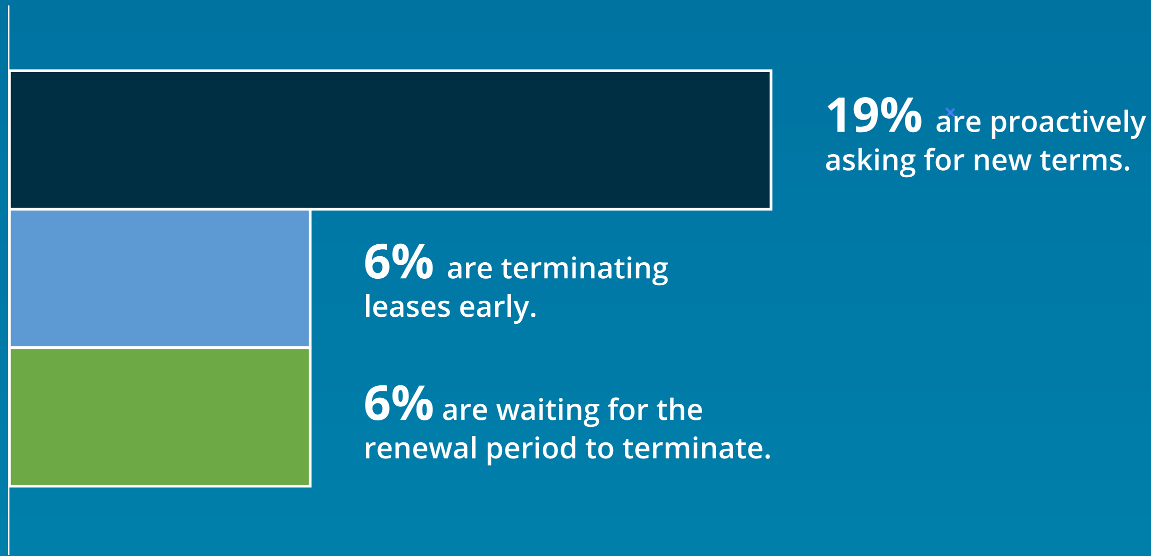
11% said that COVID-19 has had no impact on the lease agreements under their management.

MB: The biggest impact that COVID-19 is having in the market is that it is suspending the progress on new transactions. Tenants are reluctant to sign new leases, and landlords therefore do not have visibility into the future of their buildings.

Where leases are expiring, if a tenant has an alternative, some leases will not be renewed until there is more clarity as to what the business needs. Therefore, there will be some reduction through attrition in the short term. Changes in office leasing behavior may make some of that attrition permanent.

The Impact on Leased Equipment

When it comes to assets such as fleet equipment, computer hardware, etc., **more than half (54%) of Visual Lease customers surveyed said they are maintaining current lease terms**.



JF: Leases are one of the most costly expenses for businesses, so it's no surprise that nearly half (46%) of the organizations we surveyed are looking to their equipment lease terms in addition to real estate to lower their expenses.

MB: It is too early to tell whether there will be a permanent significant reduction in office rentals and use. Also, I do not believe that changes in the office landscape will have a material impact on equipment leases. It will shift the needs, but most equipment leases will remain in place. In some cases, they might even increase.

For example, many people are working from home and need additional computer equipment to do so. Much of this equipment is redundant to what is in the office. In addition, hiring a more dispersed workforce means companies need to rely on technology for collaboration and communication. This could result in an increase in leased hardware, such as video conferencing screens and A/V equipment, in physical office locations to accommodate more advanced video conferencing capabilities.

Conclusion

The upcoming year presents an opportunity for a new beginning – or at the very least, a chance to identify areas where businesses can make improvements to their existing lease portfolio.

Throughout this past year, businesses had to rapidly pull focus on their leased assets to save money during the pandemic. As a result, companies needed to document all the adjustments made within their leases to maintain accurate balance sheet information.

If companies are going to be successful in the coming year while managing the impacts of the ongoing pandemic, they need full visibility into lease terms and options for negotiation and payment.

But even in a world post-COVID-19, companies will need full visibility into their existing lease obligations and options due to the lease accounting standards (ASC 842, IFRS 16, GASB 87).

While the pandemic has brought forward the importance of having solutions in place that enable companies to pivot quickly, save cash and respond to changing market conditions, these solutions remain important to track leases for lease accounting.

Leases are dynamic and complex in nature. Tracking renewals, renegotiations or expirations takes time and effort to ensure lease records remain accurate.

Moving forward, companies will demand a level of agility and transparency more than ever to keep track of lease management and accounting needs.

About Visual Lease

Visual Lease provides lease accounting and lease administration software solutions to help companies manage, analyze and report on their leased asset portfolios, including real estate, equipment and more. The company's SaaS platform combines GAAP, IFRS and GASB-compliant lease accounting controls with sophisticated and flexible lease portfolio administration. Over 700 of the largest publicly traded and privately-owned corporations, retailers, hospitals and institutions around the globe rely on Visual Lease's cloud-based SaaS platform to meet operational and compliance requirements. For more information, please visit **visuallease.com**.

Media Contacts

Jennifer Garcia I Visual Lease
T +1 732 596 8110
jgarcia@visuallease.com

Geena Pickering I Affect
T +1 212 398 9860
gpickering@affect.com

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Resources

Webinar: How to Track and Gain Control of Your Lease Costs and the Impact of COVID-19

Webinar: Lease Concessions Masterclass Panel Discussion: Deferrals, Abatements, and Other Modifications Due to COVID-19

Webinar: Managing Short-Term, Long-Term, and Month-to-Month Leases (and Everything in Between)

Webinar: Leveraging Technology for Space Planning and Distributed Workforce in a COVID-19 Environment

Article: 3 Ways Lease Administration Helps Reduce Risks Related to COVID-19

Article: Lease Accounting Software: 3 Ways to Use It to Save During COVID-19

Article: Lease Accounting During and After COVID-19: What Your Need to Know

Article: Lease Accounting Q&A: Lease Provisions and COVID-19

Article: COVID-19 and Lease Accounting: Understanding Your Lease Obligations and Costs