



# Landlord-Tenant Talks

Real estate attorneys see vacancy and rent concessions in negotiations.

By AMY STULICK Staff Reporter

**R**eal estate attorneys are seeing their fair share of renegotiations right now between commercial landlords and tenants in an effort to ease economic tensions stemming from the COVID-19 closures.

Other lawyers tell the Business Journal they have not heard from clients quite yet, but are waiting for those calls to eventually roll in.

**Deborah Feldman**, partner at **Feldman Berman Schwartz** in Woodland Hills, said that any negotiation process usually needs about six months advance notice, and with COVID limitations, that process is going to be much longer.

"There are no face-to-face meetings, access to the buildings is restricted. A lot of the businesses aren't even open. Nothing's going on, it's really, really quiet," said Feldman. "We anticipate it will pick up. How those negotiations will look, it really depends on the vacancy factors that the landlords have and as far as rent concessions are concerned, what their lenders allow them to do."

In many circumstances, concession requests, as well as moratoriums or even maintenance requests, need to be cleared with the lender, Feldman said.

But landlords, with leeway from their lenders, may be willing to work with tenants to keep the building occupied.

"You're going to see some businesses failing and space opening up. That usually translates to rent going down," explained **John Marshall**, real estate attorney at the firm **Lewitt Hackman** in Encino. "I do see individual deals being made to defer, a combination of deferring and waiving certain portions of the rent, simply because they want to keep their tenants in business."

Larger tenants with perceived clout have flat out told landlords they won't pay, according to real estate attorney **Michael Scott**, partner at **Narvid Scott** law firm in Encino, completely bypassing any semblance of negotiation.

Scott told the Business Journal he has had

some discussions with landlords that own high-end space with national tenants, where this was happening: "They're doing that because they believe they can do it. There certainly may be some need or concern, but it's just the nature of the beast. As to those tenants, most of my clients feel they will get paid eventually, they have to kind of placate and listen to the woes of the national tenants. They're big enough and they have the where-withal — they will eventually pay."

## Downsizing, lease cancellations

While concession requests are on the docket immediately, downsizing is expected within the next year — that includes law offices.

"I think it's inevitable. I've heard from some of the larger firms that they're anticipating a drop of income between 30 and 40 percent over the next year," said Marshall. "The last time we had an economic downturn, particularly the large firms that expanded, laid off a lot of attorneys, which you never thought was going to happen years ago."

"We represent some law firms. We've told the landlord they're not paying. Their revenue is down, and again that's just to start the negotiation," added Scott. "I do think we'll see with law firms that there will be less larger conference rooms. Existing conference rooms will get full video capabilities."

Another huge component for the law office of the future is online back office research, Scott added. With staff forced out of the office mid-March and leadership just now figuring out how to bring people back, accounting staff information and bookkeeping numbers have not been readily available through a virtual network.

Small and midsize firms may be able to fare a little better when it comes to office space, obviously because they require less space but also because sharing space among these types of firms was already commonplace before the pandemic.

"We were lucky. We worked it out, my partner and I. I've liked to work at home for years; he is more old school and wants to be in the office," said Scott. "We actually share a partner's office where the plan was, he would be there three or four days a week and I would be there one day a week. It hasn't real-

ly worked out since I live in the Palisades, I'd rather stay there. It's a half an hour commute. But I see much more of that as well, where you will have shared offices and you rotate the staff in and out."

When it comes to other industries, **Twitter** has offered its employees a stay-at-home option for work. But it all depends on the nature of the workday,



Scott

Marshall said. Salespeople for commercial real estate, insurance and other sectors may see more "check-in" office space in the future, where no one has their own office and people come to a shared space before heading back out to meet with clients.

"I'll use the example of **CBRE** and their office downtown — they combined spaces from other facilities and downsized their footprint a lot," explained Marshall. "They have lockers for their salespeople, they have conference rooms and some collaborative spaces, basically because they want people out in the field rather than sitting in the office."

It's still too early to see full-on lease cancellations, Marshall said, because landlords for the most part are willing to work with

cancellations.

"One of my clients that has downtown space right now wants out of it. They wanted out of it before, but because they're part of the wholesale part of the business, the dynamic has changed," added Marshall. "With the COVID situation, they basically have everyone working from home so we're trying to negotiate a termination with that landlord."

## Uncollectible rents

Attorneys believe that if the region sees another wave of COVID-19 cases, bringing with it another shutdown, tensions between lenders, landlords and tenants will escalate. "If this does go for 12 months, and you're suing people for 12 months (rent), which is a lot of rent, will they be able to afford to pay that judgment?" asked Scott. "Certainly, in the residential sphere it's going to be very difficult, but also for a lot of small businesses, mom and pops, if they have a \$100,000 judgment, it's going to be very tough for the landlord to ever collect."

As far as office layout, distancing measures will only be in place until there is a vaccine, Marshall said. And the question of privacy will still loom big for certain industries, including law.

"People need a private office to have conversations with clients. But you're not seeing so many big vanity offices, like an office from 20 years ago. I think we've already seen and we'll see more types of smaller offices than

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JOHN MARSHALL, Lewitt Hackman

tenants to get them to stay, even if COVID closures or workflow restrictions are getting in the way of revenue.

"I have a couple going on, but that's not just related to the COVID-19 issue, that's a product of changes in their industries," explained Marshall, when discussing lease

we used to see," said Marshall.

Internal offices will continue to be coveted and those fortunate enough to have one will use it more, added Scott, cutting themselves off from common areas that require masks, social distancing configurations, plexiglass barriers and plenty of hand sanitizer.