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Trimont expects bigger rent issues this quarter amid Covid-19

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By Julie Cruz, 27th of April, 2020

As businesses across Europe are struggling to preserve cash and protect their balance sheet amid store closures aimed at containing the Covid-19 pandemic, rent collection could become an even bigger issue this quarter, according to London-based executives at US investment advisory firm Trimont Real Estate Advisors.


Dean Harris (photo: Trimont)

"The biggest concern among pretty much everyone I have spoken to in the last week is the next quarterly rent collection date in June," Dean Harris, managing director, credit and asset management – EMEA, told *REFI Europe* in a Zoom interview. "Lenders are massively concerned about what will happen if the lockdown is still in place in the first or second week of June."

Withholding rent

Despite some late payments, rent collection for the quarter due on 25 March was not as bad as anticipated, the MD said.

"In the first week after 25 March, collections were substantially lower than we expected," explained Harris. "But I am quite pleased to say that between 1 April and 20 April, certain tenants have come forward and paid that I did not expect to. There have been many hours of conversation between borrowers, as landlords, and their tenants."


Paul Robinson (photo: Trimont)

The Trimont executive mentioned the example of flexible workspace provider WeWork, which hadn't initially paid rent but has now made payments across some of its portfolio.

"It's easier to ask for forgiveness than seek approval," Paul Robinson, managing director, underwriting and advisory services EMEA, told *REFI Europe* during the video interview. "Tenants, from small SMEs to large corporates, were withholding rent whilst getting a handle on their current situation financially."

Lenders also find themselves in very different situations, depending on the type of buildings they are financing.

"There are still massive issues with retail and hospitality and I don't expect this position to improve in the short term," warned Harris. "Some serviced office operators also haven't been able to honour their rent obligations. I have also spoken with a few residential landlords and in the residential sector the picture is mixed."

"I don't think that the retail sector will bounce back. Covid-19 has probably accelerated its demise," he added. "Recovery in the hospitality sector will take some time, especially for values to get back to where they were."

Trimont's business

Trimont, which was founded more than 30 years ago in the US, specialises in the asset management of performing and non-performing credit on behalf of commercial real estate lenders and investors. Outside the US, the firm has offices in London, Amsterdam and Sydney.

Harris joined the business in London in May 2019 from Situs, with four members of his former team joining him. At Trimont, Harris oversees the management of capital, while his colleague Robinson, who joined from Hudson Advisors at the same time, oversees the deployment of capital. The two MDs had worked together in commercial real estate loan origination earlier in their careers.

Outsourcing

While UK lenders have not traditionally outsourced credit management, Harris believes that outsourcing will become more common, following the Covid-19 crisis.

"More and more lenders will look at this approach," said Harris. "Lots of lenders will need to re-underwrite their existing loans and some will want a completely fresh, impartial view on their positions."

Relying on an external partner will become more of an option if collecting rent turns out to be a big issue in June, according to Dean. Questions around lenders' treatment of the loans and how they manage borrower requests for interest holidays or capitalisation will become a more common theme and Trimont anticipates that more loans will require more intensive management.

"Many loans are syndicated or are wrapped in complex capital structures," Dean said. "We have a good skill set to help ensure lenders' positions are protected as much as possible."

"At the moment, lenders are in a lockdown mode and evaluating their existing situation," added Robinson. "That will probably unfreeze a little bit in the next couple of months."

Outlook

The current crisis is different from the 2008-2009 global financial crisis as banks are better capitalised, according to Robinson.

"It's a different sort of picture. It's not to say that banks won't have non-performing loans, but at present, they are not in a situation where they are forced to liquidate them to the same extent that they were back in 2008-2009. We are not sensing a big NPL market is imminent."

Low interest rates also create a more positive environment for the real estate market in general, according to Robinson.

"The Covid-19 situation is definitely going to put the brakes on investment for the next six to nine months, and 2020 could be a relatively poor year, but it won't have a fundamentally negative impact on the underlying performance of real estate in the medium term," said the head of underwriting. "There is definitely a place for real estate in a balanced portfolio."

"We have received multiple calls in the past two weeks from investors and funds who have capital to deploy and are keen to hear of any opportunities in which they might be able to invest" added Harris.