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Five varying approaches for landlord-tenant relationships during the current economic environment - by David Skinner

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The most substantial questions during the COVID-19 outbreak are from tenants, “Do I have grounds to pay less rent?” And from landlords, “How can I maximize rent while still maintaining the most advantageous relationship with my tenants?”

Here are a few helpful approaches to guide these conversations, of course depending on the specific landlord-tenant relationship. Each of these approaches vary in terms of severity: rent abatement, rent reduction, rent deferral, applying security deposit, or no change at all.

1. **Rent Abatement:** The most tenant-friendly rent renegotiation is for a landlord to issue an abatement, in which the tenant is responsible for neither the base rent nor the operating expenses. The landlord may ask its lender for a similar abatement but may not achieve it. This solution works best for tenants who have proven their creditworthiness but need help due to the business impacts of COVID-19.
2. **Rent Reduction:** Reducing the tenant’s rental rate is another way to take the edge off of the rent obligation due to decreased sales without removing the tenant’s obligation to continue to pay rent.
3. **Rent Deferral:** Deferring the rental obligation to a later date to be paid back either at once or over time (with or without interest) may help a tenant whose business is seasonal and can generate the cash to pay back the deferred rent at a later time.
4. **Applying Security Deposit:** This is a way for the tenant and landlord to move forward without sacrificing cash flows. Assuming there was a security deposit in the lease, an agreement may be reached that could satisfy both tenant and landlord that utilizes the security deposit to supplement the tenant’s rent payments. These agreements may or may not obligate a tenant to replenish the security deposit at a later time.
5. **No change at all:** Landlords may not want to adjust the rent at all because either the tenant is not

an ideal tenant for the space and they may be forced to default, or the landlord has little to no debt on the property and does not have a significant mortgage, giving the landlord leverage to command more landlord-oriented terms.

Keep in mind that with each approach, a realistic, long-term, relationship-driven attitude will likely be the most successful through these uncharted waters.

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