

## CoStar Column: Leisure and retail will recalibrate and rejuvenate

Nick Weir, co-managing director, Shelley Sandzer, says painful as it is at present the F&B sector can be positive about the future



By Nick Weir  
Shelley Sandzer

April 15, 2020 | 7:18 A.M.

Even before Covid-19 affected us all, rent and rates liabilities were dangerously high for F&B operators and there had already been some casualties. The Living Wage and Minimum Wage were adding further pressure too, so when coronavirus hit like a metaphorical stop button, the impact of these issues accelerated exponentially, creating a perfect storm of pain felt by everyone in the industry.

Every bricks and mortar operator has crucial negotiations ahead with their landlords. The forfeiture moratorium makes sure of that. That said, it is clearly not a one-size-fits-all situation. The tenant's cashflow position and the landlord's banking covenants will, to a great extent, determine what can ultimately be agreed. Inevitably, it will become a game of cat and mouse. The most sensible outcome would be for the losses (and pain) to be shared between the tenant, landlord and banks, but so far the banks are

standing firm. If landlords are unwilling or unable to make concessions, then tenants will have to restructure and an increase in administrations will happen. And they will occur throughout the industry, from large operators to small, national chains to one-off independents.

The longer we are in lockdown, the greater the likelihood leases will be taken back where rent has not been paid. That will mean more losses of income for landlords, some of whom will then break their banking covenants, resulting in the banks effectively owning the properties. This will possibly lead to quick sales of distressed assets that will negatively impact on capital and rental values generally.

And when the lockdown measures begin to ease, which will be phased, life will not return to as it was immediately. Social distancing measures will remain in place for some time, meaning restaurants, bars and cafés will have to operate with fewer covers and smaller capacities in the same size spaces. Some formats will adapt easier than others to this, but the outcome across the industry will be reduced turnover and a diminished ability to pay rents, particularly at their pre-Covid-19 levels.

But where does all this end? We have reached a moment of recalibration.

Whilst the loss of income from forfeiture is not good for landlords, or society as a whole when one considers how much property is owned by pension funds, it is not all bad news. Some landlords, estate landlords in particular, will be able to gain control of key properties where long leases were in



place. This will create opportunities to define their tenant mix in a way almost impossible pre-Covid-19.

Turnover rents are likely to become more common, at least in the short-term, as operators and landlords recognise they must work together to rebuild businesses and destinations alike.

The combined effect of increased availability of prime sites and a lowering of the traditional barriers to entry mean such locations could well become home to some of our best and brightest independent operators. Landlords will recognise operators' abilities to drive footfall as we recover due to their innovation in maintaining their core customer base virtually during lockdown.

And if even turnover rents do not become the norm everywhere forever, the need for tenants and landlords to collaborate will not diminish. In fact, it is to be welcomed. The need for both sides to understand one another's position, businesses and needs, has never been more acute. While there will always be some differences, and no doubt room for interpretation, the relationship has to change fundamentally as a consequence of coronavirus. Working together, rather than pulling apart, will build resilience, consumer appeal and longevity.

Sadly, when the dust settles there will be many casualties amongst F&B brands. Some property companies may also go out of business, particularly those that are retail and leisure focused. But those left still standing, no doubt battered and bruised, may well have inherited something better than what we have all just lost.

I for one am excited that once the fog has lifted and a sense of normality returns, the new world will offer all sorts of opportunities.

***Nick Weir, co-managing director, Shelley Sandzer***