



Impact of COVID-19 and Commercial Landlord-Tenant Cashflow Challenges

Issue

In an effort to provide relief to businesses during the COVID-19 pandemic, the Government of BC recently announced measures to temporarily reduce school property taxes on select commercial properties by 50%. This will provide an estimated \$500 million in relief to landlords who in turn will pass those savings on to their tenants under triple-net leases. The issue of rent-related costs for commercial tenants and managing the hard costs associated with commercial real estate can be a challenge in a period of unpredictable cash flow. SCC staff reached out to select members operating in the commercial real estate space by telephone to solicit their feedback on potential policy solutions.

What We Heard

It is important to note from the outset that not all commercial landlords we reached out to were of one mind as to what the government should do to mitigate cash-flow challenges. Some suggested the government send rent deferral subsidies directly to landlords; some suggested subsidies be sent directly to business tenants, while others proposed temporary forgiveness on the education property tax (EPT). We learned that commercial property taxes accounted for on average about 15% of the total gross rent for a commercial property and this was fairly typical across the board. When isolating the provincial (EPT) component, it's even smaller than that. We concluded that a hypothetical 50% reduction on the EPT component alone similar to that of BC would be negligible; the Province's efforts around mitigating business cash-flow challenges could be better focused on providing faster, more direct and impactful interventions if it came down to that, like a more generous subsidy.



Conclusions

What came across quite clearly is that both landlords and tenants alike need greater cashflow certainty. Landlords emphasized the importance of retaining existing tenants – even if that meant having to take a financial hit in the short-term. We were pleasantly surprised to find out that many commercial landlords and tenants are voluntarily renegotiating lease payment schedules absent government intervention. This is a testament to the collaborative spirit and resiliency of Saskatchewan entrepreneurs and their ability to recognize their shared prosperity and work together toward a common goal. In the meantime, we will recommend that commercial landlords and tenants continue to voluntarily renegotiate rent payment schedules in the interim. We encourage landlords to proactively and constructively engage with their tenants to seek mutually beneficial solutions. By minimizing unnecessary vacancies, landlords can reduce the often hidden costs associated with scrambling to find new tenants once the crisis subsides. We also encourage tenants to recognize the fact that your landlord is a business too and that they also have financial obligations. We're all in this together.

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