

Managing commercial tenants in tough times

BY JILL D. LANEY

In our current economy landlords are faced with an unprecedented number of struggling tenants (especially in the retail sector) and a smaller pool of potential tenants who are willing to pay historical market rate rents. In these difficult times, landlords need to take affirmative steps to effectively manage their properties.

Diligently monitor the tenant's performance. Generally speaking, hope springs eternal with a struggling tenant. There is always a "busy season" or a "new account" that is sure to right their sinking ship. It is easy for a landlord to allow one month to slide into another, until the rent arrearage is too large to recover.

Make realistic modifications. If a tenant requests rent relief, the first step a landlord should take is to request the tenant's financial statements. This should give the landlord a better understanding of what can be reasonably expected from the

tenant. Tenants often propose unrealistic plans that call for minimal rent payments in the near term and large payments near the end of their lease term. It may be necessary to extend the term of the lease to give the tenant a more realistic timeframe over which to catch up their payments.

Know when it's time to terminate. If the tenant's ability to survive seems unlikely, it may be best to terminate the lease. This is particularly true if the tenant seems headed for bankruptcy — failure to terminate the lease before the tenant files may leave landlord unable to re-let the property for an extended period of time while the bankruptcy trustee decides whether to accept or reject the lease.

During these difficult times, diligence and creativity should help landlords effectively manage their assets, which everyone would probably agree can sometimes be more of an art than a science.



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