Lower the Rent During the Coronavirus Pandemic; Keep landlords and tenants together with a one-page lease addendum.


FULL TEXT

April’s rent is due, and the great majority of small businesses will have trouble making their payments. The situation is unprecedented. And just as the health-care system has been overwhelmed by Covid-19, the legal system will buckle without a simple means for commercial tenants and their landlords to renegotiate leases.

In typical times, when a business tenant isn’t making lease payments, the landlord either negotiates with the tenant to work out alternatives or begins eviction proceedings. Both these paths require time, effort and legal expenses. We don’t have the capacity required for millions of tenants to renegotiate their contracts simultaneously, or for the court system to process millions of evictions.

Mass defaults are as bad for landlords as for tenants. Even in the best times, commercial properties often sit empty for several months awaiting a new tenant. In this crisis, the prospects for finding new tenants soon are very poor. It’s in everyone’s interest to find a way to renegotiate lease terms quickly.

The Cares Act stimulus offers forgivable loans to help small businesses cover their expenses. But no one knows yet whether the machinery of government can move fast enough to process applications from millions of businesses over the next days and weeks.

We believe there is a simple solution that works in the best interests of commercial tenants and landlords. It’s a quick, cheap, easy, legally binding way to renegotiate leases en masse and relieve the intense cash-flow pressures on small businesses.

With the economists Steven Levitt and Sendhil Mullainathan, we created a simple, customizable one-page lease addendum, available online at centerforrisc.org/lease. We got input from lawyers representing both tenants and landlords, with the effort led by Beth Kregor, director of the Institute for Justice Clinic on Entrepreneurship, and lawyers at Washington Prime Group. The template can be easily appended to commercial leases. It can be filled out in minutes, saving precious time and resources.

These are the basics of the contract: Normal rent payments are suspended from April through June. Landlords and tenants need only agree on what percentage of that rent will be deferred until later in the lease, and what part will be forgiven (abated). Regular rent payments resume July 1, with the deferred rent payments spread equally over the first six months of 2021. If the original lease was due to expire before June 2021, it will extend through that date with its original terms to allow for full repayment of deferred rent.

Many aspects of the Covid-19 pandemic are incredibly complex. Lease renegotiation doesn’t need to be one of them.

Mr. Thaler is a professor of economics at the University of Chicago and the 2017 Nobel Laureate in economics. Mr. Severts is executive director of the university’s Center for RISC.

Credit: By Richard Thaler and Jeff Severts

DETAILS