LBX Weekly Update #7: May Collections Start While Retail Dominos Begin To Fall

LBX investments

MARKET COMMENTARY MAY 4, 2020

May Collections Off To Good Start But Still Expected To Fall Well Short Of April Totals

Malls Are Getting Hammered, Which May Auger Well For Open-Air Centers Going Forward

Dear Investor,

We hope this message finds everyone healthy and safe. This week, we will look at portfolio activity from April to help investors assess May's potential collection activity. We will also review some of last week's retail headlines, which were generally bearish towards the mall and department store sectors. Please see below:

Collections Update

- **Collections Still Ongoing For April; 31.6% of May Rents In Through Monday, May 4**

April Collections rose from 63.5% to 65.4% last week as some late payers caught up on April delinquencies. May collections are off to a good start, at $522,909 (31.6%), but more than $800,000 (47.9%) of May billings are expected to be deferred, as we continue to negotiate agreements with many of our tenants. For local, regional and some national tenants who have requested relief, we have generally offered sixty days of rent deferral paid back over a defined period of time (depending on various factors, including our desire to extend certain leases, negotiating strength of the tenant, etc).

As of Monday, May 4th, we have sent out 38 rent deferral letters and received two countersigned agreements. The number of countersigned agreements should rise sharply this week as May rents are due and based on feedback from tenants. As noted previously, the national tenants who have requested relief generally require more complicated agreements than the locals. Most are actively negotiating with us but some larger tenants such as Ross and Bed, Bath and Beyond are adopting aggressive postures and we are likely to place them in default. We are not alone in this respect: many REITs and other large institutional landlords have also been pushing back against well-capitalized retailers and defaulting them.

- **How We Project Rent Collections**

We group tenants into one of six categories: (1) paying most or all of their rent, (2) partial paying, (3) deferring their rent (if there's an agreement in place), (4) requesting relief, (5) they aren't paying and aren't communicating, and (6) TBD, which means that we expect them to pay but in the current climate, until the money arrives, there is risk they will not. We adopt a conservative approach and assume that until a tenant pays, they are TBD – in other words, we don't count the money until it is in the bank. Per the chart below, we have collected $530,086 thus far for May, are in some form of relief negotiations with tenants comprising $797,801 in monthly billings, and have classified $349,761 as TBD. Assuming 0% collection from the relief negotiations cohort and 100% from the TBD category (which is unlikely), we will achieve 52.4% of collections in May. That is the best-case scenario, in our view.

If We Collect From 100% of the TBDs We Will Hit 52.4% In May. That's The Best Case

	April (Through 5/4)			May (Through 5/4)						
	Billed	Collected	Outstanding	Billings	Collected	%	Relief Req	%	TBD	%
Alafaya	$187,021	$138,171	$48,849	$180,891	$35,988	19.9%	$81,436	45.0%	$63,467	35.1%
Harbison	$253,794	$145,175	$108,619	$253,794	$81,975	32.3%	$114,830	45.2%	$56,989	22.5%
Colony	$185,788	$144,433	$41,355	$186,010	$69,391	37.3%	$37,293	20.0%	$79,326	42.6%
Oakwood	$241,143	$189,653	$51,489	$239,607	$80,137	33.4%	$115,718	48.3%	$43,752	18.3%
Terraces	$119,069	$52,026	$67,043	$124,226	$29,334	23.6%	$74,716	60.1%	$20,175	16.2%
North Rivers	$195,929	$107,668	$99,198	$203,087	$34,198	16.8%	$155,680	76.7%	$13,209	6.5%
Oakbrook	$184,716	$164,525	$20,192	$184,716	$133,680	72.4%	$28,387	15.4%	$22,650	12.3%
Fultondale	$265,289	$126,608	$148,100	$265,289	$55,386	20.9%	$169,407	63.9%	$40,496	15.3%
Chapel Hill	$38,056	$32,523	$5,533	$40,028	$9,997	25.0%	$20,333	50.8%	$9,698	24.2%
Portfolio	**$1,670,803**	**$1,100,782**	**$590,379**	**$1,677,648**	**$530,086**	**31.6%**	**$797,801**	**47.6%**	**$349,761**	**20.8%**

Source: LBX Investments

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If April's payment patterns hold, we will have a good idea about May rental collections by this Friday. Per the chart below, last month, we collected 79.6% of revenues by the end of the first week and 86.6% by the middle of the month.

We note that there is no playbook for what is happening in retail today and credit ratings and financial strength do not necessarily dictate who fulfills their rent obligations. Many stronger retailers have been hoarding cash and prioritizing financial flexibility ahead of paying expenses such as rent, payroll and vendors. Thus far in May, for example, we have received rent payments from JCPenney – which is rumored to be considering bankruptcy – while Ross has informed us they will not be paying full rent.

Many of the public REITs that we have acquired assets from, including Brixmor (BRX), Regency Center (REG) and Retail Properties of America, Inc. (RPAI), will be reporting 1Q20 earnings this week. These calls will provide a helpful window into how the public companies in our space are navigating COVID-19 and should offer us collections benchmarks and operational ideas. For example, last week Kimco announced a Curbside Pickup Plan to help its tenants adapt to new shopping habits that have emerged as a result of the pandemic.

April Rent Collections: 79.6% Of Rents Were In By The End Of The First Week

Collection Date	Tenants Paid	Total Collected	% of Total	Aggregate % Collected
Before April 1	7	$100,983.87	9.1%	9.1%
First Week of April				
April 1 - 3	*69*	*$544,898.66*	49.1%	*58.2%*
April 4 - 7	*27*	*$220,848.06*	19.9%	*78.2%*
First Week (Total)	***96***	***$765,746.72***	***69.1%***	***78.2%***
April 8 - 14	15	$177,510.46	16.0%	94.2%
April 15 - 21	5	$19,894.71	1.8%	96.0%
April 21 - 30	5	$20,698.51	1.9%	97.8%
May	4	$24,070.90	2.2%	100.0%
Totals Through May 1	**132**	**$1,108,905.17**	**100.0%**	**100.0%**

Source: LBX Investments

Additional LBX Notes

- All K-1s have been released to investors except for LBX BV LLC, which should be finalized and released this week.
- We have published a full transcript of our interview with Dan Fukushima from Toffler Associates, a leading future-focused strategic advisory firm at LBX Investments - Market Commentary.

Last Week's Retail News

More Bad News For Malls And Department Stores, But Expect Tenants To Shift To Open Air:

- We have been highlighting the likely COVID-19-related acceleration of certain retail trends, including the decline of department stores and malls. Last week, Green Street Advisors – a leading real estate investment research house – projected that more than 50% of department stores in malls will close by 2021. The cost for retailers to lease space in malls that are seeing dwindling foot traffic and increased bankruptcies/closures is generally far higher than leasing space in well-positioned open-air centers with financially stronger tenants who attract more shoppers. Curbside collection and other forms of buy-online pick-up in store (BOPIS) are also thriving in the current environment, and that favors open-air formats. Bank of America's research team noted last week that "long-term, retailers with BOPIS offerings are likely to come out of the pandemic with valuable experience and a stress-tested platform. Curbside pickup seems to be the most effective and preferred form of BOPIS by consumers, which favors strips over malls."

Bankruptcy Rumors Heat Up:

- J. Crew declared filed for Chapter 11 bankruptcy this morning and over the last couple weeks, major news outlets have reported that JCPenney, Neiman Marcus, and smaller retailers like Sur La Table are considering filing for bankruptcy. With their stores closed and plummeting sales, troubled retailers have been under tremendous financial pressure.

Amazon Reported A 26% Increase In Sales, Offset By Significantly Higher Costs

- Last week, Amazon reported that first quarter net sales, including its AWS cloud services, rose 26% to $75.5 billion. Per Retail Dive, despite the sales rise, "many essential items were shipped to customers at cost, CFO Brian Olsavsky said on a conference call with analysts. Expenses ballooned: Worldwide shipping costs in the quarter rose 49% and fulfillment costs rose 11%, according to a company press release. That hit profits hard. Net income in the first quarter fell 29% year over year to $2.5 billion, and operating income was down 10% to $4 billion."

Coming Up

Next week, we will update May collections statistics and provide investors with an analysis of our portfolio's downside protection as we look forward over the next several months. In the meantime, please contact us with any questions.

Sincerely,
Rob Levy, Phil Block and Heath Binder