

Federal Realty: Which Retail Tenants Should Receive More Time?

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Decision scope: Whether to extend bounded, repayable rent deferrals to additional retail tenants

Case convention: The decision is hypothetical. The June 1 update is dated and describes information through June 1, but its exact posting time is unavailable; this case assumes the presentation was publicly available by end of day June 1.

A difficult collection picture

In a June 1-dated COVID-19 business update, Federal Realty Investment Trust (FRT) reported that rent collections varied sharply across property uses and retail categories. The company reported that it had entered into rent deferrals with 15% of tenants by count, representing less than 10% of annualized base rent (ABR), and negotiations were continuing. The presentation did not disclose the individual deferral amounts, repayment terms, tenants, or subsequent repayment. It reported deferrals, not a general rent-forgiveness or abatement program. [P3]

Assume you are part of a hypothetical FRT leasing and operations committee. Should FRT extend bounded, repayable deferrals to additional tenants whose businesses remain disrupted, or keep relief limited to tenants with narrowly documented hardship? If it extends deferrals, what evidence should be required, and how should the policy vary by tenant and property?

This is a timing decision. A deferral reschedules a payment obligation; it does not, by itself, forgive the rent. An abatement reduces rent permanently and requires a separate decision about landlord cost and tenant viability. The public materials do not establish that all tenants merit assistance, or that every tenant with missed rent is unable to pay.

Collections and reopenings were uneven

As of May 28, FRT had collected 57% of billed recurring April rents overall: 49% from retail tenants, 95% from office, and 96% from residential. Its May collection snapshot, also dated May 28, showed 54% overall to date, including 45% for retail, 92% for office, and 95% for residential. “Billed recurring rents” primarily includes base rent and cost reimbursements, so the collection measure is not simply contractual base rent. May was a partial-period observation. [P3]

FRT estimated that roughly 60% cash collection was needed to cover general and administrative expense, interest, maintenance, and leasing capital. That is a management estimate, not an audited break-even threshold; it may omit future costs and timing effects. The partial May figure fell below it, adding pressure to avoid indiscriminate rent concessions. [P3]

At the same time, FRT reported that all 104 of its centers were open and that tenants representing 54% of ABR were open and operating, up from 47% on May 1. “Open” included modified operations and did not indicate that traffic, sales, or cash flow had recovered. Markets were beginning or continuing phased reopenings in June, providing a plausible temporary-disruption case for some tenants. [P3]

Exhibit 1. Interim rent collection snapshots

Portfolio category	April billed recurring rent collected as of May 28	May billed recurring rent collected to date as of May 28
Total portfolio	57%	54%
Retail	49%	45%
Office	95%	92%
Residential	96%	95%
Management's approximate cash collection break-even	-	60%

Source: FRT June 1 COVID-19 business update, slides 4, 5, and 7 (PDF pp. 4, 5, 7) [P3]. April/May collections and the management estimate have different measurement scopes and dates. The May figure is partial-period. These rates are collection observations, not final losses or tenant failure rates.

Retail was not one risk category

FRT's May collection rates varied by retail category. The presentation showed 99% for grocery/drug and 100% for banks/financial services, compared with 39% for restaurants, 16% for full-price apparel, 14% for housewares/furnishings, 13% for experiential tenants, and 6% for fitness. Category ABR was measured as of March 31, while cash collections were measured as of May 28; detailed category data excluded Hoboken. [P3]

These differences argue against a uniform rule, but they do not determine which individual tenants were viable or why they had not paid. A grocery tenant with high collections and a fitness tenant with low collections face different operating conditions; within either category, tenant-specific cash, lease disputes, and recovery prospects may differ. The categories also differ in rent weight, tenant count, seasonality, and operating status.

FRT's ABR base covered more than one tenant type. In the June update, office and residential together represented 20% of ABR, essential retail 24%, and restaurants 15%. The tenant-size view showed anchors above 10,000 square feet at 56% of ABR, mid-tier tenants at 10%, national/regional small shops at 10%, local small shops at 7%, office at 7%, and residential at 10%. These are separate classifications and should not be added together. ABR share does not reveal which tenant draws traffic or how its vacancy would affect neighboring stores. [P3]

Exhibit 2. Selected May collection rates by retail category

Category	Collection rate as of May 28
Banks/financial services	100%
Grocery/drug	99%
Restaurants	39%
Full-price apparel	16%
Housewares/furnishings	14%
Experiential	13%
Fitness	6%

Source: FRT June 1 business update, slide 4 (PDF p. 4) [P3]. Category ABR is as of March 31; cash is as of May 28. The detailed category chart excludes Hoboken. These are aggregate category rates, not a tenant-level eligibility score.

Liquidity, tenant value, and competing explanations

In its May 6 first-quarter release, FRT reported \$995 million of cash at March 31 and approximately \$1.4 billion of pro forma liquidity after a May 6 term loan. Its June 1 presentation reported approximately \$2 billion of cash plus undrawn availability and no revolver outstanding, alongside \$340 million of maturities through year-end 2021. These financing snapshots give the landlord capacity to negotiate, but liquidity is not equivalent to surplus cash; FRT had strengthened liquidity amid uncertainty. Management's roughly 60% break-even estimate framed the operating constraint. [P2] [P3]

Missed rent could reflect mandatory closure and a temporary inability to trade, tenant-specific weakness that predated COVID, lease disputes, or strategic withholding during negotiations. Reopenings and improving May collection support a temporary-shock explanation; category dispersion and continued negotiations leave the tenant-specific explanation unresolved. The public data do not identify which explanation applies to any particular tenant.

The landlord also has an interest in a center's tenant mix. Theoretical work models stores as affecting one another's sales through customer draw; related shopping-center research describes anchors attracting traffic that benefits smaller tenants. FRT's sources do not quantify these effects at its properties. A tenant's ABR share or size should not be treated as a direct measure of its contribution to center traffic, nor does a possible spillover prove that deferring rent will preserve the tenant or the center's value. [A1] [A2] [A3]

A peer comparison offers context but not a target. Realty Income reported 82.9% April contractual-rent collection by May 1, including 99.9% for investment-grade tenants. Its portfolio consisted primarily of freestanding properties under long-term net leases, with 6,525 properties, about 630 tenants, and 51 industries. FRT's multi-tenant shopping centers, tenant mix, lease structure, and denominator differ; Realty Income's collection rate is not a like-for-like performance benchmark for FRT. [P4]

The committee's choice

The June update documents existing deferrals and continuing negotiations, but not their terms or the company's policy for selecting tenants. The hypothetical committee must decide whether to extend bounded, repayable deferrals to more retail tenants and what eligibility, repayment, and review conditions to use. It may also decide to keep deferrals narrow and require individual evidence of hardship. Neither path implies an across-the-board entitlement.

For each proposed deferral, what would the committee need to know about tenant cash flow, closure/reopening timing, lease obligations, repayment capacity, and the property's tenant mix? How should it account for the landlord's liquidity and operating needs? What evidence would trigger a review, an extension, or a return to contractual payments? Keep abatements separate from deferrals and identify the additional facts needed before considering forgiveness.

Discussion questions

1. What do the April and May collection snapshots establish, and what do they not establish about final rent loss?
2. Should FRT extend deferrals to additional retail tenants? Which eligibility criteria can be applied consistently without assuming that every tenant in a weak category is viable?
3. How should a landlord account for tenant-specific ability to repay and possible center-wide tenant spillovers?
4. What is the role of FRT's liquidity and management's approximate 60% collection break-even estimate in the choice?
5. What terms, evidence, and review triggers should govern any deferral? How would the analysis differ for a permanent abatement?

Sources and cutoff

The date-level cutoff is June 1, 2020, end of day Eastern Time. FRT's presentation is dated June 1 and states that information covers impacts through June 1, but its exact posting time is unavailable; public availability by end of day is assumed. Exact locators, source versions, and reading limits appear in the research source register and evidence extraction.

- **[P1]** Federal Realty Investment Trust, 2019 Form 10-K, filed February 10, 2020, Item 1 and Item 7. [SEC filing](#)
- **[P2]** Federal Realty, "Federal Realty Investment Trust Announces First Quarter 2020 Operating Results," May 6, 2020, "Highlights," "Regular Quarterly Dividends," and "COVID-19 Update." [Investor release](#)
- **[P3]** Federal Realty, "COVID-19 Business Update - June 1, 2020, NAREIT Update," dated June 1, 2020, slides 2-7, PDF pp. 2-7. [Investor presentation](#)
- **[P4]** Realty Income Corp., Q1 2020 earnings release, May 5, 2020, printed pp. 2-4. [SEC Exhibit 99.1](#)
- **[A1]** Brueckner, Jan K. 1993. "Inter-store Externalities and Space Allocation in Shopping Centers." *Journal of Real Estate Finance and Economics* 7(1): 5-16. Abstract only consulted. [Bibliographic record and abstract](#)
- **[A2]** Pashigian, B. Peter, and Eric D. Gould. 1998. "Internalizing Externalities: The Pricing of Space in Shopping Malls." *Journal of Law and Economics* 41(1): 115-142. Publisher abstract only consulted. [Publisher page](#)
- **[A3]** Yuo, Tony Shun-Te, Neil Crosby, Colin Lizieri, and Philip McCann. 2003. "The Management of Positive Inter-Store Externalities in Shopping Centres: Some Empirical Evidence." Working paper REP-WP2003-10. Partial text consulted; full PDF was inaccessible. [Paper record](#)

No post-cutoff tenant outcomes, collections, negotiations, or pandemic developments are included. The case does not prescribe an actual FRT decision.