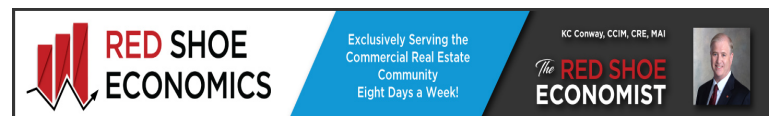




**2020 Virtual Fall Convention  
Day 2 – October 13, 2020**

## **Navigating the Current Economic Conditions**

**KC Conway, CCIM, CRE, MAI**  
[KC@RedShoeEconomics.com](mailto:KC@RedShoeEconomics.com)  
[www.RedShoeEconomics.com](http://www.RedShoeEconomics.com)



# DISCLAIMER:

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**Tennessee Realtors®  
2020 Virtual Fall Convention  
Day 2 - 9:00 am (Central Time)**



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## Opening Theme: **It feels like all shoes are dropping at once!**

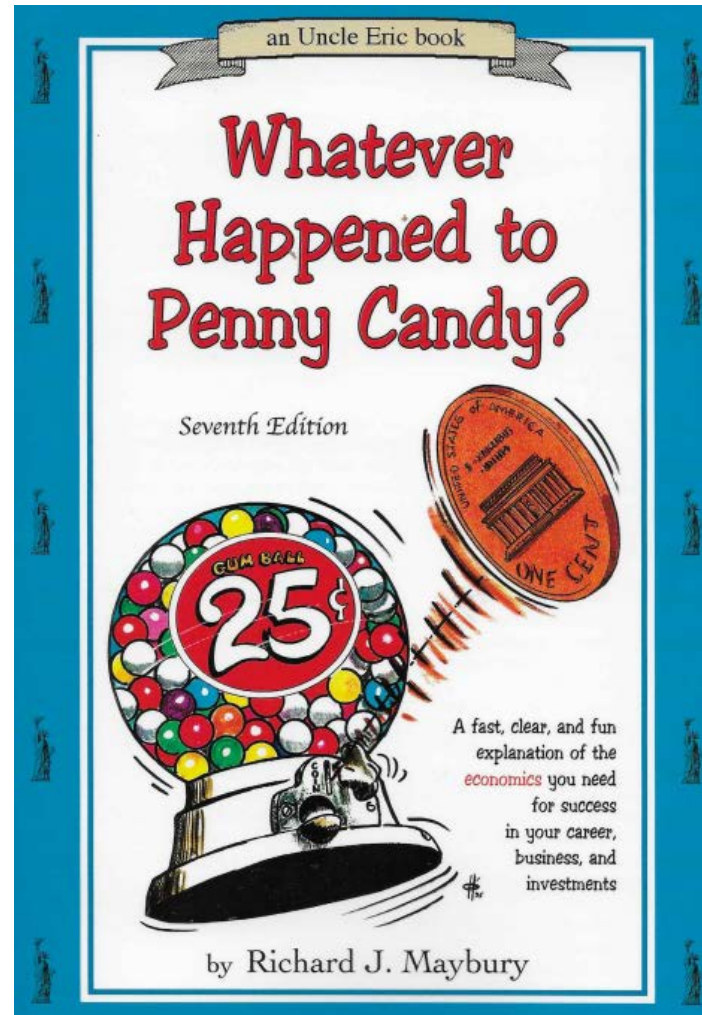
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# Reading Recommendation

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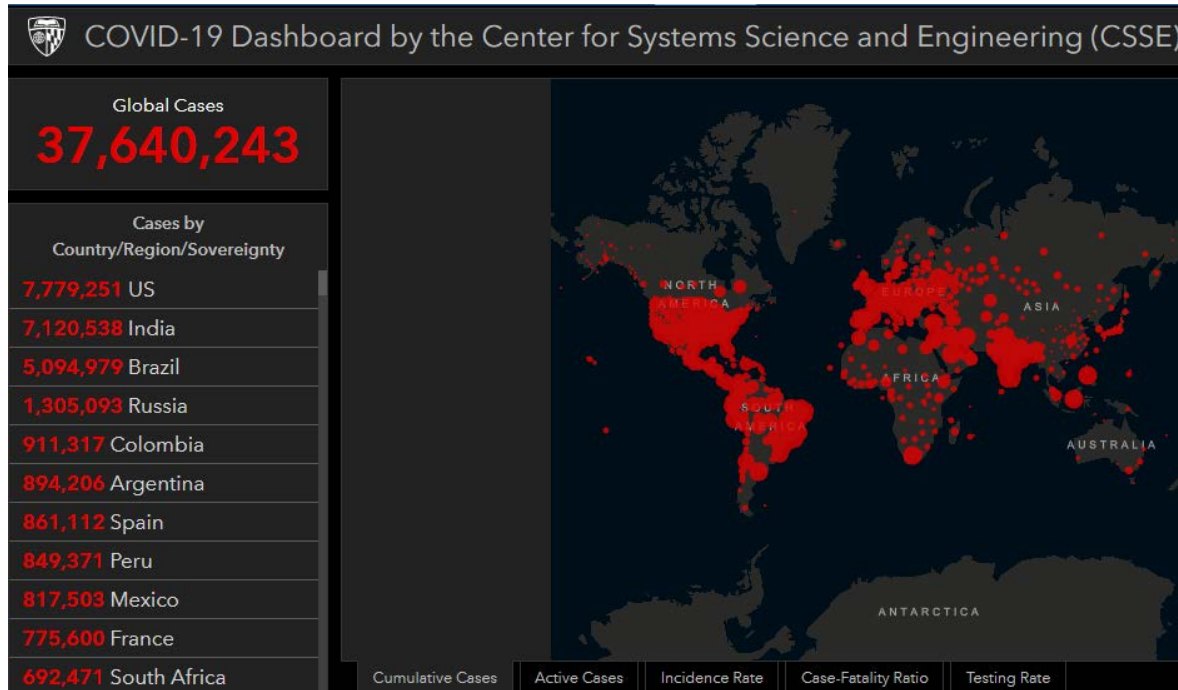
***“Economics  
you need for  
success.”***



**Chapter 2:**  
**➡ TANSTAAFL**  
**“There Ain’t**  
**no Such Thing**  
**as a Free Lunch.”**



# 7 Economic & CRE Metrics to Monitor: #1 - COVID Cases by GEO



<https://coronavirus.jhu.edu/map.html>

Note:

- NY not #1
- FL & GA now in Top-5 (new hot-spots)
- TN now in Top-10 (#9)

# Cases: Oct 13<sup>th</sup> = 37.6m (up 10.0m cases in past 4 weeks; and 25X the <900k April 1<sup>st</sup> )

US Share: Most in the World at 7.8m or >25%.  
**Monitor India.** It will surpass US by Nov Elections.

Covid19 cases are connected to the Eco-Reopening bone is connected to the Stressed CRE bone.

Cases by Country/Region/Sovereignty
7,779,251 US
7,120,538 India
5,094,979 Brazil
1,305,093 Russia
911,317 Colombia

Top 5 Countries  
India rose by 25% in Sept and is within 600,000 cases of US.  
**India will surpass US!**

## State Rankings:

#1	855,457 confirmed California US	214,717 confirmed Tennessee US
#2	818,433 confirmed Texas US	214,097 confirmed New Jersey US
#3	736,024 confirmed Florida US	177,819 confirmed Pennsylvania US
#4	474,286 confirmed New York US	172,059 confirmed Louisiana US
#5	331,409 confirmed Georgia US	168,749 confirmed Ohio US
	324,918 confirmed Illinois US	166,076 confirmed Alabama US
#7	232,747 confirmed North Carolina US	159,248 confirmed Virginia US
	226,050 confirmed Arizona US	157,406 confirmed South Carolina US

#9 

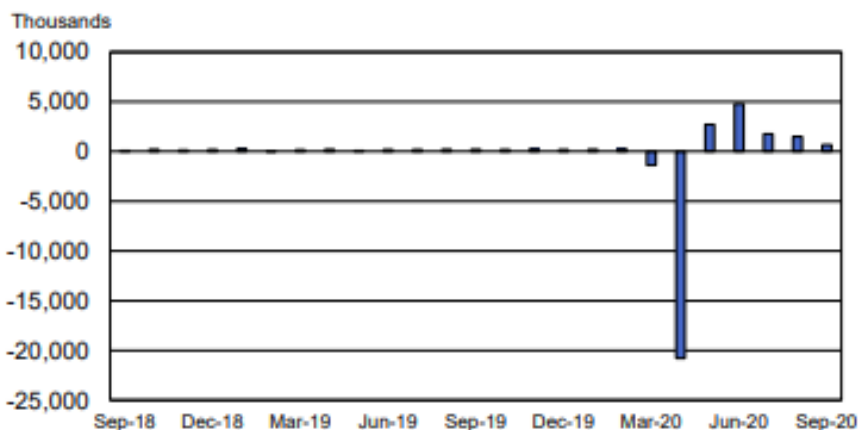
#16

## #2 Jobs: BLS data distorted by CARES Bill / ADP & Paychex are more revealing!

### BLS YoY & MoM Jobs Report

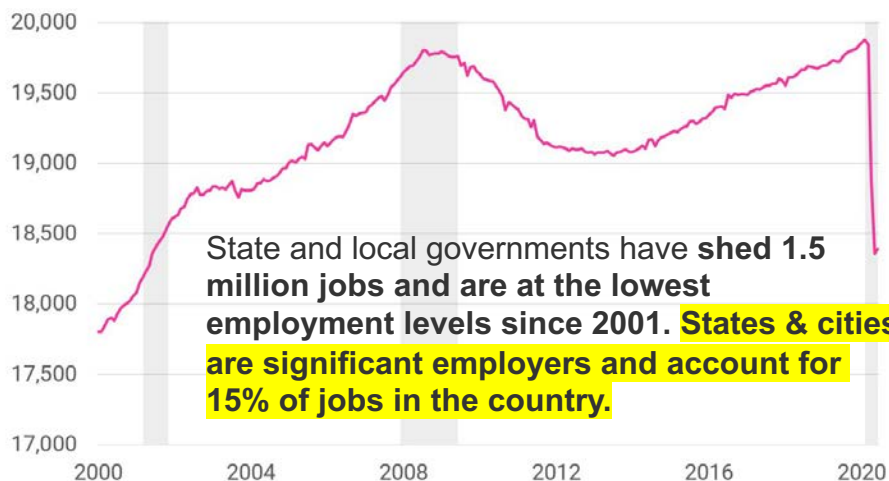
- Sept = +661k
- Slowing from +3mm to +5mm in May & June when states started reopening.
- 11.5 million still out of work from March & April onset of COVID.

Chart 2. Nonfarm payroll employment over-the-month change, seasonally adjusted, September 2018 – September 2020



<https://www.bls.gov/news.release/pdf/empsit.pdf>

State and Local Government Employment (in thousands)



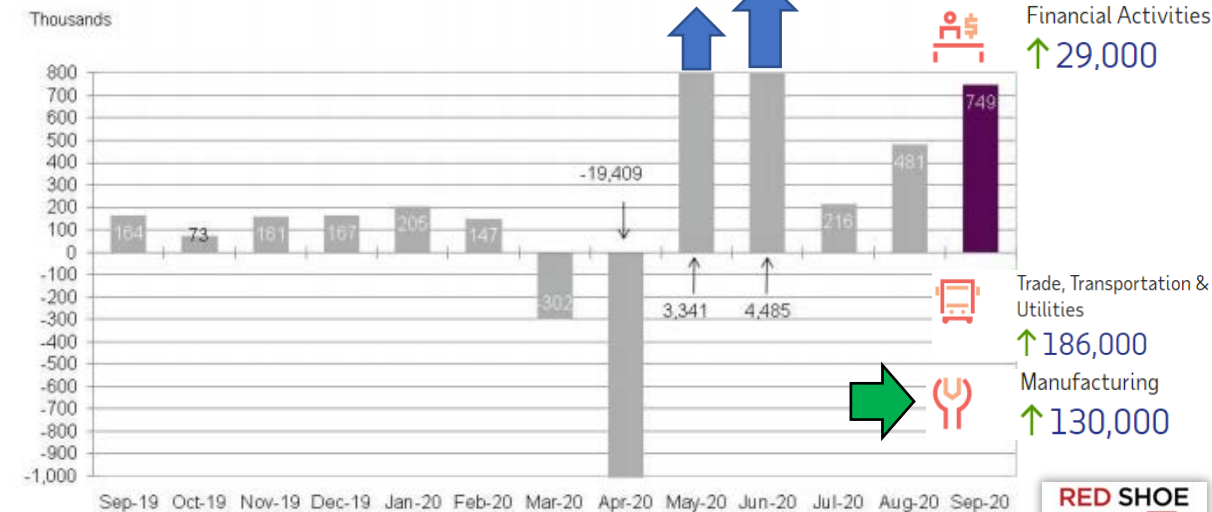
Source: Bureau of Labor Statistics  
Data Release Date: July 2, 2020

### ADP Jobs Report Aug & Sept:

**“Slowing Mo with no Gov Dough.”**

- Monthly avg job gain July '19 – Dec '19 was +160,000.
- March to July ADP jobs numbers were -302k (Mar), -19.4m (Apr), +3.3m (May), +4.3m (June), +167 (July) and +428 (Aug). Sept was +749k
- In other words, we have brought back less than half of the 20 million jobs lost in March & April.

Chart 1. Change in Total Nonfarm Private Employment



Source: ADP Research Institute®

# Who now is Largest Private Employer? **WALMART (#1 in 21 states)**

## WALMART NATION

Walmart is the largest private employer in 21 states



### Walmart Nation

Walmart is the biggest company in the world by revenue, and there are over 3,500 Walmart Supercenters spread around the United States alone. It takes about 1% of private sector workforce in the United States to keep this massive fleet of big box stores running. In Arkansas, that figure jumps up to 4%, with about one-third of the total retail workforce employed at the retail giant.

State	↕	# of Walmart Employees
Texas	<b>Top Walmart States for Jobs:</b>	168,403
Florida		107,460
Georgia	<b>#1 TX</b>	60,002
Illinois	<b>#9 TN</b>	53,687
Arkansas		52,367
Ohio	<b>South has 6 of the Top-10</b>	50,186
Virginia		43,623
Missouri		42,029
Tennessee		40,598
Indiana		39,875

<https://www.visualcapitalist.com/walmart-nation-largest-employers/>



# CRE Impacting Metrics to Monitor: #3 Job Cuts (Not in the BLS or ADP #s)



Job Cuts are NOT just a CA, NY story. They are broad based across states (and look at FL & TX).

LAYOFF LOCATION

Year To Date

California	372,288
New York	230,539
Florida	206,703
Texas	154,064
Ohio	91,196

Challenger Job Report - September 2020 Job Cut Total is 186% Higher Than September 2019

Job cuts announced by U.S.-based employers jumped to 118,804 in September, up 2.6% from August's total of 115,762, according to Challenger, Gray & Christmas, Inc.

September's total is 186% higher than the 41,557 job cuts announced in September 2019.

Last month's job cuts bring the yearly total so far to 2,082,262, up 348% from the 464,869 cuts at this time last year.

<http://www.challengergray.com/press/press-releases>

SOUTH	Sep-20	YTD 2020	YTD 2019
Alabama	309	5,408	1,826
Arkansas		2,081	1,292
Florida	23,171	206,703	14,929
Georgia	5,650	40,763	10,991
Kentucky	1,544	28,668	6,816
Louisiana	1,591	16,563	5,278
Mississippi		3,629	2,513
North Carolina	1,518	37,821	12,526
South Carolina	67	12,846	10,129
Tennessee	391	51,067	15,617
Virginia		15,766	21,463
West Virginia	377	7,727	2,285
TOTAL	34,618	429,042	105,665

Note:

TN has 2<sup>nd</sup> most Cuts (51k) in South after FL (207k)



# #4 GDP – The **state-by-state rankings** will change post COVID



## 3D Map: The U.S. Cities With the Highest Economic Output



KC Conway, MAI, CRE, CCIM  
CCIM - Member at CCIM Institute  
1w • Edited •

GDP by US MSA - VisualCapitalist shows how just 10 metros account for nearly 1/3rd of the GDP for the dominant global economy - the US. These rankings and top 10 list will change post Covid19. Who do you think will ascend into the top 10 as NE & West Coast MSAs slip?



SALT from 2017 Tax Act was moving South. COVID accelerates trend to TN, GA, NC, FL

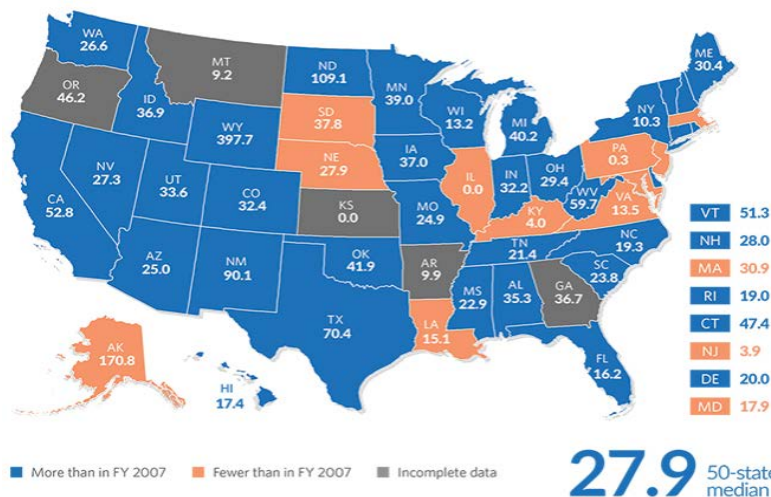
# #5 State Budgets: Chapter 9 BK of MSAs and Counties ahead

Like Real Estate, it's all local when it comes to State Budgets

<http://www.acre.culverhouse.ua.edu/win>

Pre-Covid, TN 21 days; PA & IL <1 day  
**National Avg. was 28 days**

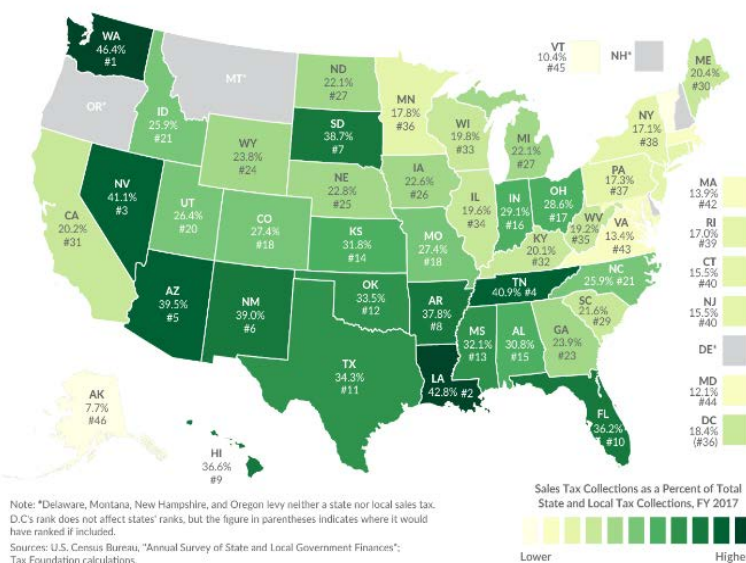
34 States' Rainy Day Funds Surpass Pre-Recession Levels  
Days each state could run on rainy day funds, FY 2019



Sales Taxes as % of Revenue  
**TN & FL highest in SE (41%/36%)**

How Much Does Your State Rely on Sales Taxes?

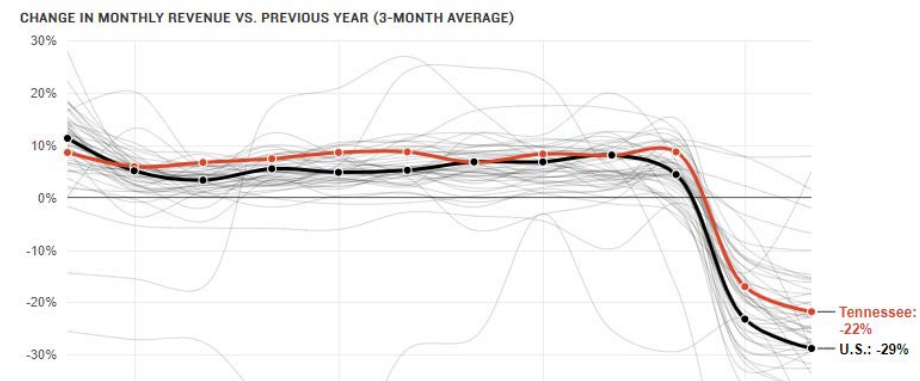
Sales Tax Collections as a Percent of Total State and Local Tax Collections, FY 2017



**NY worst down 37%, TN down 22%.**  
**US avg Revenue drop for all states: -29%**

From March To May, Tax Revenue Was Down 22% In Tennessee Compared With Last Year

Most states have experienced a significant reduction in tax revenue in recent months. Click on a state to learn more about its budget and revenue situation.



<https://www.npr.org/2020/08/03/895384547/new-york-has-lost-a-greater-share-of-revenue-than-most-states-due-to-covid-19>

"With dwindling cash, cuts to education, health care and other areas are inevitable in many places. **State leaders have described the situation as unprecedented, horrifying" and devastating.**" Maryland Governor Larry Hogan, a Republican, said, "Responding to this crisis has created a multiyear budget crisis unlike anything the state has ever faced before, **more than three times worse than the Great Recession.**"

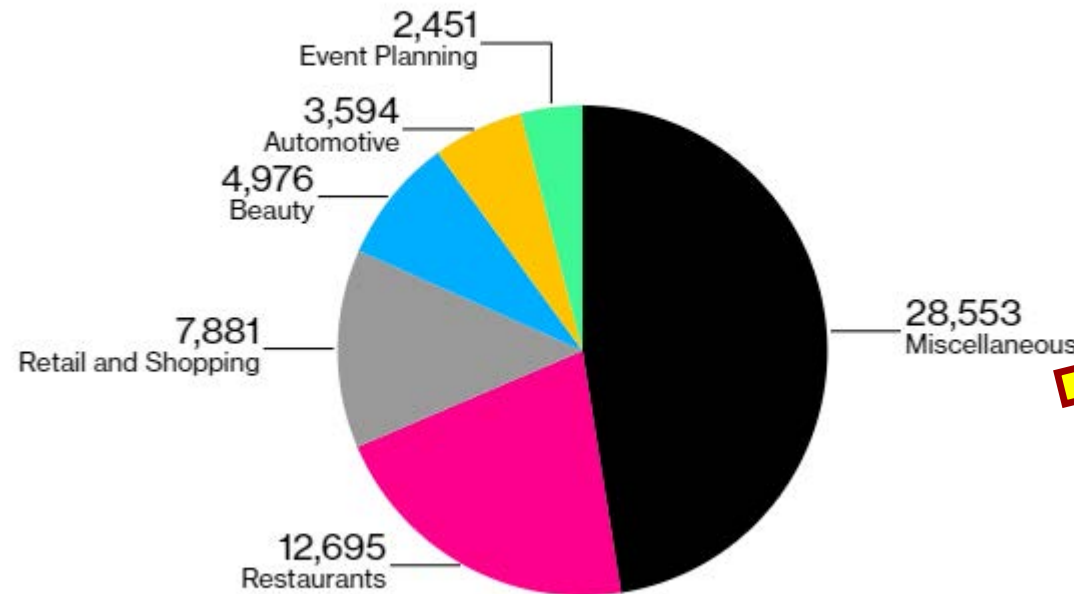
## #6 Small Business Health: “Silent Failures” not being picked up!

### Small Businesses Are Dying by the Thousands — And No One Is Tracking the Carnage

Bloomberg - August 11, 2020

#### Business Busts

Restaurant industry leads with most local business closures



Yelp Inc.  
Data from March 1 to July 25

[https://www.bloomberg.com/news/articles/2020-08-11/small-firms-die-quietly-leaving-thousands-of-failures-uncounted?utm\\_campaign=news&utm\\_medium=bd&utm\\_source=applenews](https://www.bloomberg.com/news/articles/2020-08-11/small-firms-die-quietly-leaving-thousands-of-failures-uncounted?utm_campaign=news&utm_medium=bd&utm_source=applenews)

**August 12, 2020**

#### Small Business Update – Big Challenges

<http://www.acre.culverhouse.ua.edu/win>

ACRE tracks the health of small businesses as part of a dashboard on the vitality of commercial real estate via a number of resources that go beyond the Census Bureau and Commerce Department.

The five primary ones include: i) [ADP](#) Employment report (breaks out jobs by size of business); ii) [Paychex - Employment Watch](#) report that monitors a myriad of metrics on small business employment activity; iii) the National Federation of Independent Business ([NFIB-Small Business Optimism Report](#)); iv) National Center for Middle Market companies ([NCMM - Quarterly Market Indicators report](#)); and v) [American Bankruptcy Institute \(ABI - Bankruptcy Stats by State\)](#). Each of these are discussed below in context with a Bloomberg feature this week on small business failures titled "[Small Businesses are Dying by the Thousands ...](#)". The primary data for this Bloomberg spotlight on small business failures came from Yelp for the period March 1 - July 25, 2020.



## #6 Small Business Health: “The Middle Market” (most vital, yet weak)

NATIONAL CENTER FOR  
THE MIDDLE MARKET



### Employment Growth

*Employment will continue to decline, although marginally*

Employment declined by 4.4% in the year ending June 2020, compared to 5.0% growth in 4Q and 4.1% in 3Q 2019. The retraction marks the worst performance in the MMI's history. In comparison, U.S. unemployment rose from 3.6% in January to 11.1% in June. Nearly a third of middle market companies reduced employment, compared to 14% in 4Q 2019. The number of companies increasing employment dropped from 48% to 24%. Those increasing employment by 10% or more fell from 27% to 12%.

Core companies report the smallest reduction (-0.6%) followed by large (-3.6%) and small companies (-5.9%). The declines have been steepest in wholesale trade (-11.6%) and retail trade (-5.5%). The only sector registering an increase is financial services (1.3%).

For the coming 12 months, 25% of firms expect employment to expand, down from 42% in 4Q 2019. Twenty-one percent expect payrolls to continue shrinking. Overall, companies believe employment will fall by 0.2% in the coming year, compared to a 4Q 2019 projection of 3.5% growth.

2Q'20  
**24%**

of middle market  
companies added jobs.

2Q'19  
**55%**



# 2Q | 2020

## MIDDLE MARKET INDICATOR

In Unprecedented Times,  
the Middle Market Strikes  
a Cautious Path Forward

[https://www.middlemarketcenter.org/Media/Documents/MiddleMarketIndicators/2020-Q2/FullReport/NCMM\\_MMI\\_Q2\\_2020.pdf](https://www.middlemarketcenter.org/Media/Documents/MiddleMarketIndicators/2020-Q2/FullReport/NCMM_MMI_Q2_2020.pdf)



# #7 Transportation Metrics: TSA Passenger Count, Rail Traffic & Ports

## TSA checkpoint travel numbers for 2020 and 2019

This page will be updated by 9 a.m. daily. (Back to Coronavirus (COVID-19) information)

Date	Total Traveler Throughput	Total Traveler Throughput (1 Year Ago - Same Weekday)
10/02/2020	857,186	2,526,835
10/01/2020	855,908	2,447,687
9/30/2020	634,046	2,082,179
9/29/2020	568,688	1,998,980
9/28/2020	797,699	2,368,818
9/27/2020	873,038	2,452,596
9/26/2020	659,350	1,966,234
9/25/2020	826,329	2,547,611
9/24/2020	826,316	2,510,926
9/23/2020	608,726	2,188,236
9/22/2020	549,741	2,033,490
9/21/2020	769,936	2,431,388

**What do airline bankruptcies mean in Q4 after CARES Bill employee retention requirements ended Q3/Sept 30?**

**Airline Route Cuts in Q4 will hit Secondary MSAs. Will NY Region have same Routes to US and Globally?**

**UPDATE: Aug 20** - American Airlines will drop flights to 15 smaller U.S. cities in October when a federal requirement to serve those communities ends. Airlines received money from CARES Bill - In return for taxpayer dollars, airlines were barred from furloughing workers and were required, in most cases, to continue serving destinations they had before the pandemic. Both of those conditions expire Sept. 30.



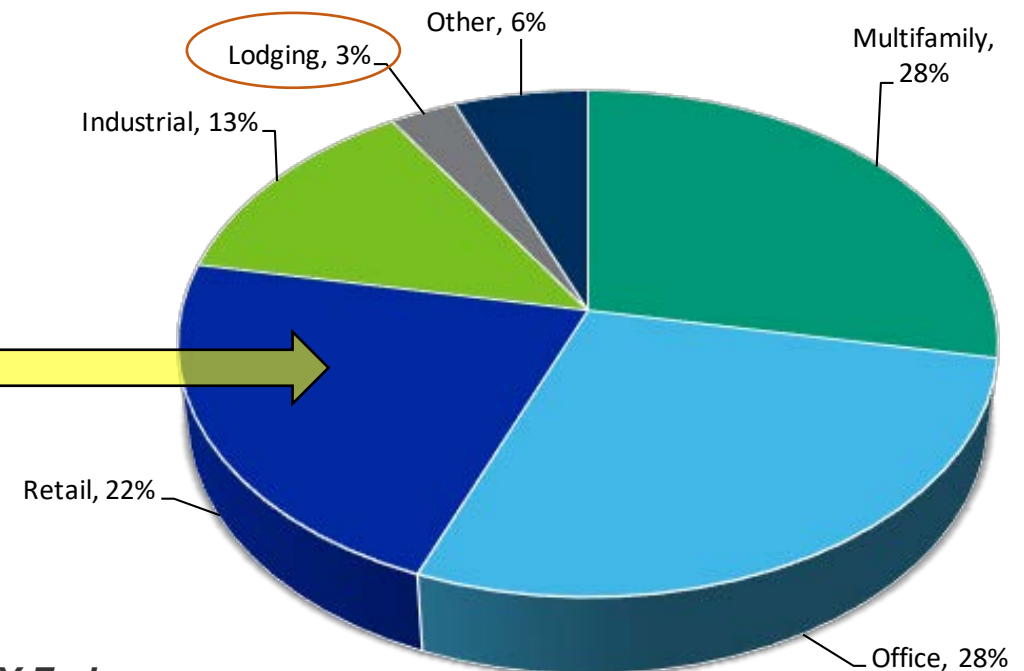
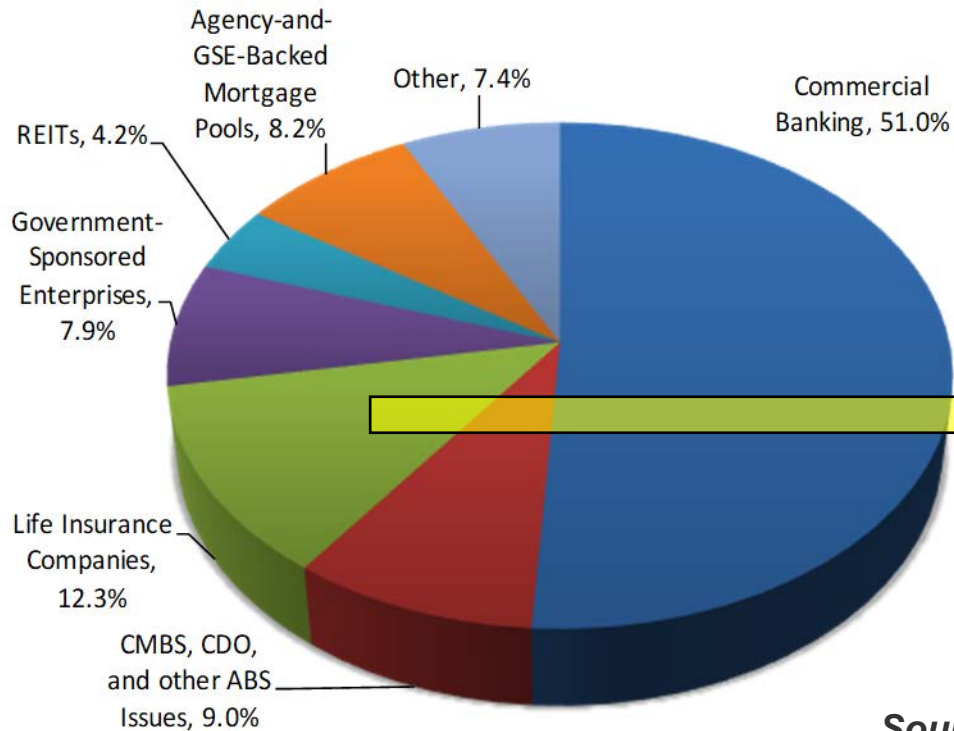
## North American Freight Rail Traffic in June 2020

U.S. rail volumes in June weren't close to where they would have been absent the pandemic, but for the most part **they were better than in April and May, so at least they're heading in the right direction. Intermodal did relatively well in June.** Average weekly originations of 251,233 units were the **most since November 2019.** The **6.6% year-over-year monthly decline in June was the smallest since January 2020** and much better than the 17.2% and 13.0% declines in April and May, respectively. Total U.S. carloads in June were down 22.4% from last year. **For all of Q2 2020, total carloads were down 25.1%-the biggest quarterly percentage decline for total carloads on record.**

	Feb. '20	Mar. '20	April '20	May '20	June '20
<b>U.S.</b>					
<u>Total carloads</u>					
Avg. per week	231,911	224,918	196,107	185,043	198,564
% change from prior year	-7.2%	-6.0%	-25.2%	-27.7%	-22.4%
<u>Total carloads excl. coal</u>					
Avg. per week	168,478	167,099	145,641	138,723	148,045
% change from prior year	-0.7%	-2.0%	-19.4%	-21.9%	-17.4%
<u>Total intermodal</u>					
Avg. per week	249,456	233,845	219,085	228,231	251,233
% change from prior year	-8.8%	-12.2%	-17.2%	-13.0%	-6.6%

# Top 7 CRE Issues to Monitor: #1 Understanding the CRE Debt Pie

i) Banks Hold >50%;    ii) Life Cos Biggest Pieces Are MF and Office



Source: RCA & NY Fed.

## Note 1:

>30% bank CRE loans on "Payment Deferral."  
Banks looking at CRE Loan Debt sales vs drawn out Workout & REO process over 2 yrs.

## Note 2:

Life Cos. will need most help in MF, Office.  
However, these loans are much bigger \$ assets in urban areas. Hotel, not material.

# Top 7 CRE Issues – #1 CRE Debt Pie - Banks



## Banks Facing Potentially Hefty Volume of Troubled CRE Loans

With forbearance periods still underway, visibility has not yet emerged on how much distress sits on bank balance sheets.

Beth Mattson-Teig | Jul 21, 2020

[https://www.nreionline.com/distressed/banks-facing-potentially-hefty-volume-troubled-cre-loans?NL=NREI-21&Issue=NREI-21\\_20200722\\_NREI-21\\_543&sfvc4enews=42&cl=article\\_2\\_b&utm\\_rid=CPG09000062692289&utm\\_campaign=28056&utm\\_medium=email&elq2=95ab1b38bc104db794b493c5f7b6ba26&oly\\_enc\\_id=](https://www.nreionline.com/distressed/banks-facing-potentially-hefty-volume-troubled-cre-loans?NL=NREI-21&Issue=NREI-21_20200722_NREI-21_543&sfvc4enews=42&cl=article_2_b&utm_rid=CPG09000062692289&utm_campaign=28056&utm_medium=email&elq2=95ab1b38bc104db794b493c5f7b6ba26&oly_enc_id=)

**Snowballing distress in commercial real estate loans is threatening to become an avalanche that could overwhelm banks.**

Getting a glimpse behind the curtain on how bank loans are performing isn't easy. **"It's amazing that we have gone from the great financial crisis to now and still have no better transparency into the banks at a granular level as we do with CMBS,"** says K.C. Conway, director of research and corporate engagement at the University of Alabama's Alabama Center for Real Estate (ACRE) and chief economist for the CCIM Institute. Some banks are more transparent than others **and there is definitely a lag in the data, he says.**

In addition, **the FDIC is allowing banks to forbear on loans and not have to report them as troubled loans for up to 180 days. "We're not going to see anything big show up in the numbers until this deferral period expires,"** says Johannes Moller, director in North American banks, at Fitch Ratings. The next big question is how the Federal Reserve is going to act and whether there will be further forbearance, which will help to determine when clarity on defaults on loans held by banks will be revealed, he says. (According to the Mortgage Bankers Association, commercial banks currently holding 39 percent of the \$3.7 trillion in commercial/multifamily outstanding mortgage debt outstanding in the U.S.)

The COVID-19 related economic downturn is widely expected to cause a surge in loan defaults and delinquencies in some property sectors, and there is some data emerging that is providing insight into the potential stress ahead. For example, **Trepp has analyzed a diverse portfolio of 13,000 commercial real estate balance sheet loans held by commercial banks. Trepp is forecasting that the cumulative default rate for that dataset will rise from its current 0.5 percent default rate to 6.5 percent. Notably, the hardest hit sectors are expected to be lodging, with a cumulative default rate of 21 percent and retail at 9 percent.** Other major real estate sectors analyzed will experience more moderate increases in distress with multifamily at 4.7 percent, office at 4.5 percent and industrial at 2.4 percent, according to Trepp.

# Top 7 CRE Issues to Monitor: #2 CRE Credit Metrics

## LTSS

TABLE 2: SPECIAL SERVICING RATE BY PROPERTY TYPE CMBS FULL



	AUG-20	JUL-20	JUN-20	3 MO.	6 MO.	1 YR.
Industrial	1.21%	1.24%	1.40%	1.33%	1.61%	2.30%
Lodging	24.99%	24.30%	20.47%	16.21%	2.04%	1.87%
Multifamily	2.56%	2.27%	1.86%	1.89%	2.14%	2.76%
Office	2.93%	2.85%	2.68%	2.42%	2.37%	3.51%
Retail	17.31%	16.04%	14.24%	9.31%	4.96%	5.33%

Source: Trepp

<https://info.trepp.com/hubfs/Trepp%20August%202020%20Special%20Servicing%20Report.pdf>

## CMBS DQT

CHART 2: DELINQUENCY RATE BY PROPERTY TYPE (% 30 DAYS +)



	AUG-20	JUL-20	JUN-20	3 MO.	6 MO.	12 MO.
Industrial	1.20	1.24	1.57	1.82	1.45	1.75
Lodging	22.96	23.79	24.30	19.13	1.60	1.54
Multifamily	3.02	3.33	3.29	3.25	1.79	2.39
Office	2.32	2.40	2.66	2.40	1.72	2.83
Retail	14.88	16.10	18.07	10.14	3.62	4.07

Source: Trepp

Aug Update – Calm during Eye or stabilizing?

<https://info.trepp.com/hubfs/Trepp%20August%202020%20CMBS%20Delinquency%20Report.pdf>

**Trepp**<sup>®</sup>

Historical CMBS Report:  
An Update on Hotel Commercial Real Estate

<https://www.ahla.com/sites/default/files/Trepp%20Historical%20CMBS%20Report%20-%20Hotel%20Commercial%20Real%20Estate.pdf>

**LTSS and CMBS DQT are a great proxy for what you are likely to experience in overall CRE.**

**CMBS is the Canary-in-the-Coal-Mine CRE indicator.**





# Top 7 CRE Issues to Monitor: #2 CRE Credit Metrics - HOTELS



## Historical CMBS Report: An Update on Hotel Commercial Real Estate HOTEL CMBS DELINQUENCY STATISTICS

- The percentage of loans that are 30 or more days delinquent is 23.4% as of July 2020. This is the highest percentage on record.

## HOTEL CMBS SPECIAL SERVICING STATISTICS

- The percentage of loans that are with the special servicer is 24.0% as of July 2020.
- The percentage of loans that were with the special servicer at the end of 2019 was 1.81%.
- \$21.0 billion in hotel CMBS loans were with the special servicer as of July. That compares to \$1.6 billion as of December 2019.
- The highest volume of loans in special servicing during the Great Financial Crisis was \$17.6 billion. That peak did not come until about two years after the beginning of the GFC.

## HOTEL CMBS SERVICER WATCHLIST STATISTICS

- The percentage of loans that are on servicer watchlist is 35.3% as of July 2020.

<https://www.ahla.com/sites/default/files/Trepp%20Historical%20CMBS%20Report%20-%20Hotel%20Commercial%20Real%20Estate.pdf>

**Surprisingly,  
No FL markets in Top-10 list of Most DQT Hotel Loans**

### MSA ANALYSIS

#### Hotel CMBS Loans in the Top 100 Largest U.S. MSAs by Population Size

##### MSAs with Highest (\$) of Delinquent Loans

MSA Name	Delinquent Balance	Delinquent Count	Delinquency %
New York-Newark-Jersey City, NY-NJ-PA	1,475,707,235	53	38.72
Houston-The Woodlands-Sugar Land, TX	664,229,480	40	66.18
Chicago-Naperville-Elgin, IL-IN-WI	976,297,753	28	53.84
Dallas-Fort Worth-Arlington, TX	289,455,307	24	18.88
Los Angeles-Long Beach-Anaheim, CA	523,022,978	23	13.74
Atlanta-Sandy Springs-Roswell, GA	169,521,960	19	11.73
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	278,303,629	18	33.11
Seattle-Tacoma-Bellevue, WA	378,409,088	16	36.14
Nashville-Davidson--Murfreesboro--Franklin, TN	347,227,542	16	32.28
Austin-Round Rock, TX	316,969,519	13	35.73

##### MSAs with Highest % of Delinquent Loans

MSA Name	Delinquency %	Delinquent Balance	Delinquent Count
New York-Newark-Jersey City, NY-NJ-PA	38.72	1,475,707,235	53
Houston-The Woodlands-Sugar Land, TX	66.18	664,229,480	40
Chicago-Naperville-Elgin, IL-IN-WI	53.84	976,297,753	28
Dallas-Fort Worth-Arlington, TX	18.88	289,455,307	24
Los Angeles-Long Beach-Anaheim, CA	13.74	523,022,978	23
Atlanta-Sandy Springs-Roswell, GA	11.73	169,521,960	19
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	33.11	278,303,629	18
Seattle-Tacoma-Bellevue, WA	36.14	378,409,088	16
Nashville-Davidson--Murfreesboro--Franklin, TN	32.28	347,227,542	16
Austin-Round Rock, TX	35.73	316,969,519	13

# Top 7 CRE Issues to Monitor: **Hotel Occupancy Restrictions**



<http://www.acre.culverhouse.ua.edu/explore/stories/may-27-2020>

**May 27, 2020**

## Report: Hotel Industry Faces Historic Wave of Foreclosures

August 19, 2020

The hotel industry is facing a historic wave of foreclosures due to the ongoing COVID-19 pandemic, according to **a recent report commissioned by the American Hotel & Lodging Association (AHLA).**

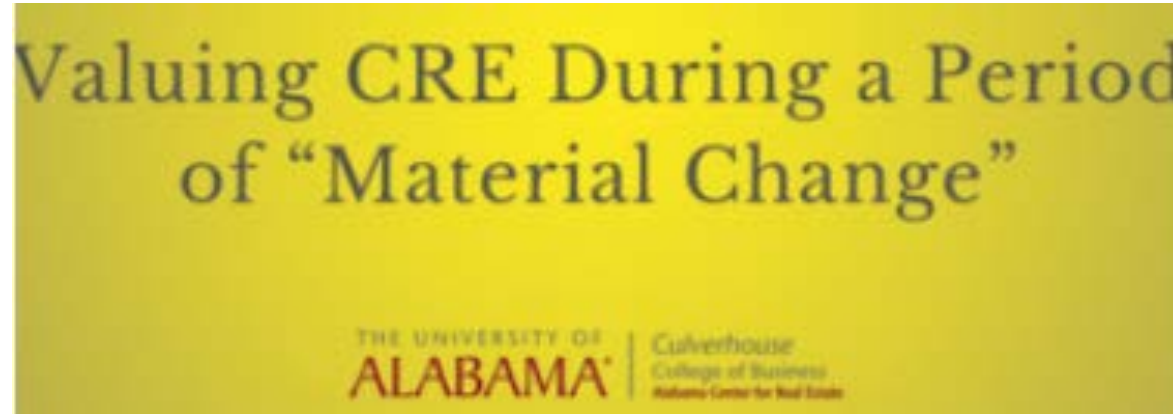
Since the start of the pandemic, the hotel sector has faced a historic number of delinquencies and is the most heavily hit sector of the commercial mortgage-backed securities (CMBS) market. The report, which was **compiled by Trepp, showed that the percentage of loans that are 30 days or more delinquent is 23.4%** as of July. That number is the **highest percentage on record.** For comparison, the percentage of hotel loans that were 30 days or more delinquent at the end of 2019 was 1.3%.

**Do these new Gov. Imposed Occupancy Restrictions represent a type of Eminent Domain (A taking without compensation) and permanent value diminution?**

## The Other L&T Industry Impacted by COVID-19

- **Smaller \* Less Dense Hotel Properties:** One major change travelers might see in hotels in the future is a change in design. "I think that people are going to migrate towards smaller properties, or perhaps migrate to properties that have larger open spaces and are not as high-volume," Mark Durliat, CEO and cofounder of Grace Bay Resorts in Turks and Caicos. Carolyn Doyon, CEO and President of Club Med North America believes **"there will be increased demand for resort options that are less dense ... resorts that are integrated with their surrounding natural environments and are spread out across larger areas."** Visually, she predicts a big change to the design of resorts too, with **a pivot to "low-rise buildings that blend in rather than traditional concrete high-rises."**
- **Back to the Future to Motels and Exterior Entries?** Wyndham Hotels and Resorts, which has adopted the AHLA's Safe Stay protocols and owns brands like Super 8 and Days Inn, is already seeing rising demand for its **properties with exterior corridors** — also known as motels.
- **Contactless Everything:** Can you imagine "contactless check-in and temperature screenings upon arrival?" **Hotels that didn't already have contactless check-in are now offering it via smartphone app** to cut down on person-to-person interaction. At Hilton, for example, guests can check in using its Digital Key system, which opens any door a guest would normally access with a key card. That includes guest rooms, elevators, side doors, and fitness centers.
- **How does a 50% ADO (Average Daily Occupancy) price in terms of Rate and Hotel Profitability?** No more noisy neighbors: **Some hotels will only fill 50% of their rooms.** Contactless check-in isn't the only way your next

## Top 7 CRE Issues to Monitor: #3 Valuation During “Material Change”



The shortest distance between 2 points, say Market Value and Fee Simple Interest, is a straight line. That is the Sales Comp approach as no Property Rights Interest Adjustment required as in the Income Approach.

<http://www.acre.culverhouse.ua.edu/explore/stories/valuing-cre-during-a-period-of-material-change>

- A dearth of CRE transactions does not mean updated commercial real estate values are impossible, and thus all transaction activity must lockup.
- There are valuation tools like ➡ "market correction factor" DCF adjustment used in the "Oil Patch" days in the 1980s to figure out the valuation puzzle and how to determine "material market condition" changes. Valuable clues as to vacancy, rent forbearance, leasing activity, Cap Rates, etc. are all contained in public ➡ earnings reports. For a recent perspective using these metrics, read ACRE's feature from April 29, 2020 titled [Drinking From a Firehose - Q1 2020 Earnings](#).



# Top 7 CRE Issues to Monitor: #4 Housing & MF



June 29, 2020

## FHFA Provides Tenant Protections

Washington, D.C. – Today, to help renters in multifamily properties stay in their homes and to support multifamily property owners during the coronavi...

**45.7 million households rent their home.**



[#JBRECDailyInsight John Burns Real Estate Consulting](#)

## The Unanswered:

- **Urban MF vs Suburban MF?**
- 80% paying rent, but **20% in rent forbearance.**
- What is **“Market Value”** of MF when **20% in rent forbearance?** It gets tricky.
- What happens to MF if **GSEs** returned to private market?



# The Housing Quartile Not Doing So Well During COVID-19

THE UNIVERSITY OF ALABAMA  
Culverhouse College of Business  
Alabama Center for Real Estate

The housing industry, like the NASDAQ stock index, appears to be one of those exceptions to the coronavirus where ["Everything is Awesome"](#). Consider the most recent headlines regarding overall housing data from June 2020:

•**Pending Home Sales, June 29, 2020:** [Pending Home Sales Post Record Gain up 44%](#). The National Association of Realtors' index of pending home sales increased 44.3% in June 2020 to a three-month high of 99.6, after falling in April to the lowest level in records back to 2001. The National Association of Realtors project existing home sales to reach 4.93 million units this year, up from a [previous forecast](#) of 4.77 million. In CY 2029, there were approximately 5.3 million previously owned homes sold.

•**Home Price Appreciation, June 30, 2020:** [Housing Price Growth Surprisingly Stable Amid Coronavirus](#) – The S&P CoreLogic Case-Shiller national home price index posted a 4.7% annual gain up from 4.6% the previous month beating estimates of 4.5%.

•**National Association of Homebuilders Housing Market Index (HMI), June 16, 2020:** [Builder Confidence Surges in June](#). In a sign that housing stands poised to lead a post-pandemic economic recovery, builder confidence in the market for newly-built single-family homes jumped 21 points to 58 in June 2020, according to the latest [National Association of Home Builders/Wells Fargo Housing Market Index](#) (HMI). Any reading above 50 indicates a positive market.



K.C. Conway Director of Research & Corporate Engagement July 13, 2020  
<http://www.acre.culverhouse.ua.edu/explore/stories/the-housing-quartile-not-doing-so-well-during-covid-19>

What the aforementioned data portrays is the condition of housing for the upper two quartiles of the housing market consisting primarily of homeowners, renters, and prospective buyers that can work remote and/or are employed in vital logistics, supply-chain, technology, and essential services industries.

**However, there is another quartile of the housing industry that is not doing well – the 25% quartile struggling to make rent and mortgage payments. The conditions for this quartile are not making their way into the housing headlines** and are being overlooked by the homebuilding industry and noted analysts.

- **4.2 million homeowners are in forbearance plans:** According to the [Mortgage Banker Association's \(MBA\) June 2020](#) data, this figure represents **more than 8% of all mortgage loans in the U.S.** This ratio going into 2020 was approximately 0.25% - and the level that this ratio was previously regarded as elevated for mortgages in loan forbearance was 1%.
- **4.3 million households are delinquent in their mortgages – up another 723,000.** According to [Black Knight](#), another 723,000 homeowners became past due on their mortgages in May 2020, **pushing the national delinquency rate to its highest level in 8.5 years.**
- **Approximately 20 million of renters, or one in five of the 110 million Americans who live in renter households, are in some form of a rent forbearance program** and faced eviction at the end of July 2020 if the FHFA had not extended its eviction and rent forbearance program recently from 3 to 6 months, according to the [Aspen Institute](#).

# Top 7 CRE Issues to Monitor: #5 Office CRE & Remote Work



## Nearly 70% of CEOs expect to downsize offices: KPMG

<https://therealdeal-com.cdn.ampproject.org/c/s/therealdeal.com/2020/09/03/nearly-70-of-ceos-expect-to-downsize-offices-survey/amp/>

Out of 315 CEOs answering the survey published in [KPMG's "2020 CEO Outlook: Covid-19 Special Edition,"](#) 69 percent checked the "We will be downsizing office space" box.

Remote working has widened their available talent pool, said 73 percent of CEOs in the survey.

The rapid shift to working from home might have been rocky at the outset of the pandemic, but after months of overseeing their remote workforce, 77 percent of CEOs said they will increase their use of digital collaboration and communication tools, according to the survey conducted in July and early August.

CEOs see the pandemic as an opportunity to rethink the way we work and communicate



We will continue to build on our use of digital collaboration and communication tools.



Working remotely has widened our potential talent pool.



We will be downsizing office space.



My communications with employees have improved during the crisis.



<https://home.kpmg/xx/en/home/in-sights/2020/08/global-ceo-outlook-2020.html#:~:text=The%20agenda%20for%20the%20new,impact%2C%20both%20societal%20and%20economic>

Source: KPMG 2020 CEO Outlook COVID-19 Special Edition, KPMG International.

# Top 7 CRE Issues to Monitor: #5 Office CRE – Suburbs Strengthen



David P. Ellermann, CCIM, CIPS • 1st  
Managing Director, Founder at SperryCGA-Ellermann Brokerage  
2d •



Single story suburban assets are gaining the preference of office users, and investors alike. Large corporations formerly requiring Class A multi-story footprints; may matriculate from downtown high-rise offices laced with amenities, and/or create additional suburban satellite locations.



Single-story office might be about to have its day in the sun



# Top 7 CRE Issues to Monitor: #6 Retail up-ended by eCommerce



KC Conway, MAI, CRE, CCIM  
CCIM - Member at CCIM Institute  
3d •

Retail Bankruptcies and Store Closings - The pain continues. This NE and FL retailer is just the latest casualty of Retail e-Evolution (2019 paper by the Red-Shoe Economist and CCIM Institute (CCIM.com/Insights) as our economy shifts from a "shop & take home to order online and deliver to me" economy. And in case you are keeping count, 2020 YTD store closings total 7,815 (according to CoreSight Research) and are narrowing in on 2019's record 9,300.

Connect Media > New York News > Top New York > Century 21 Files for Chapter 11, Will Close All Stores



Century 21 Files for Chapter 11, Will Close All Stores

<https://www.linkedin.com/in/kc-conway-mai-cre-10320812/detail/recent-activity/>

...

**And, Lease Accounting ASC 842 answers the ?  
"Why would a Retailer pay Contract Rent > Market Rent?"**

<https://coresight.com/research/us-store-closures-more-retailers-shift-to-e-commerce-at-the-expense-of-stores/>

**US Store Closures: More Retailers Shift to E-Commerce at the Expense of Stores**



**US STORE CLOSURES: MORE RETAILERS SHIFT TO E-COMMERCE AT THE EXPENSE OF STORES**



## Top 7 CRE Issues to Monitor: #6 Retail – AdRu - The mall becomes ...

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- This large 65 acre parcel situated six miles east of downtown Dallas is now the site of Monmouth's new 352,000 sf FedEx facility.



# What is Outlook for Malls? Re-vision to Medical

## 100 Oaks Mall in Nashville to Mixed-Use Medical



Located on 49 acres adjacent to Interstate 65 on the south side of Nashville, One Hundred Oaks Mall was originally constructed in the early 1960s, but **the facility had fallen into disrepair despite experiencing two major overhauls. Traffic patterns had changed significantly around the mall over the years rendering the multiple site access points outdated and ineffective, and declining sales and tenant occupation was threatening to turn the facility into another dead mall.**

GS&P partnered with Vanderbilt University to **re-vision the deteriorating retail center into a successful, mixed-use medical office destination.** We provided master planning, design and programming services for the **880,000-square-foot project**, including 300,000-square-feet of leased space dedicated to Vanderbilt University Medical Center's clinical and administrative support operations, an additional 90,000 square feet of shelled space for future expansion, and 50,000 square feet of space for sub-lease in an adjacent office tower. **The remainder of the space is leased to a variety of retail operations.**





# Top 7 CRE Issues to Monitor: #6 Retail – AdRu - The mall becomes ...

<https://www.ccim.com/newscenter/commercial-real-estate-insights-report/adaptive-reuse/>



**Andrew Shaw, CCIM**  
Executive Vice President at NAI Robert Lynn

## Atlanta: Emory University & Northlake Mall

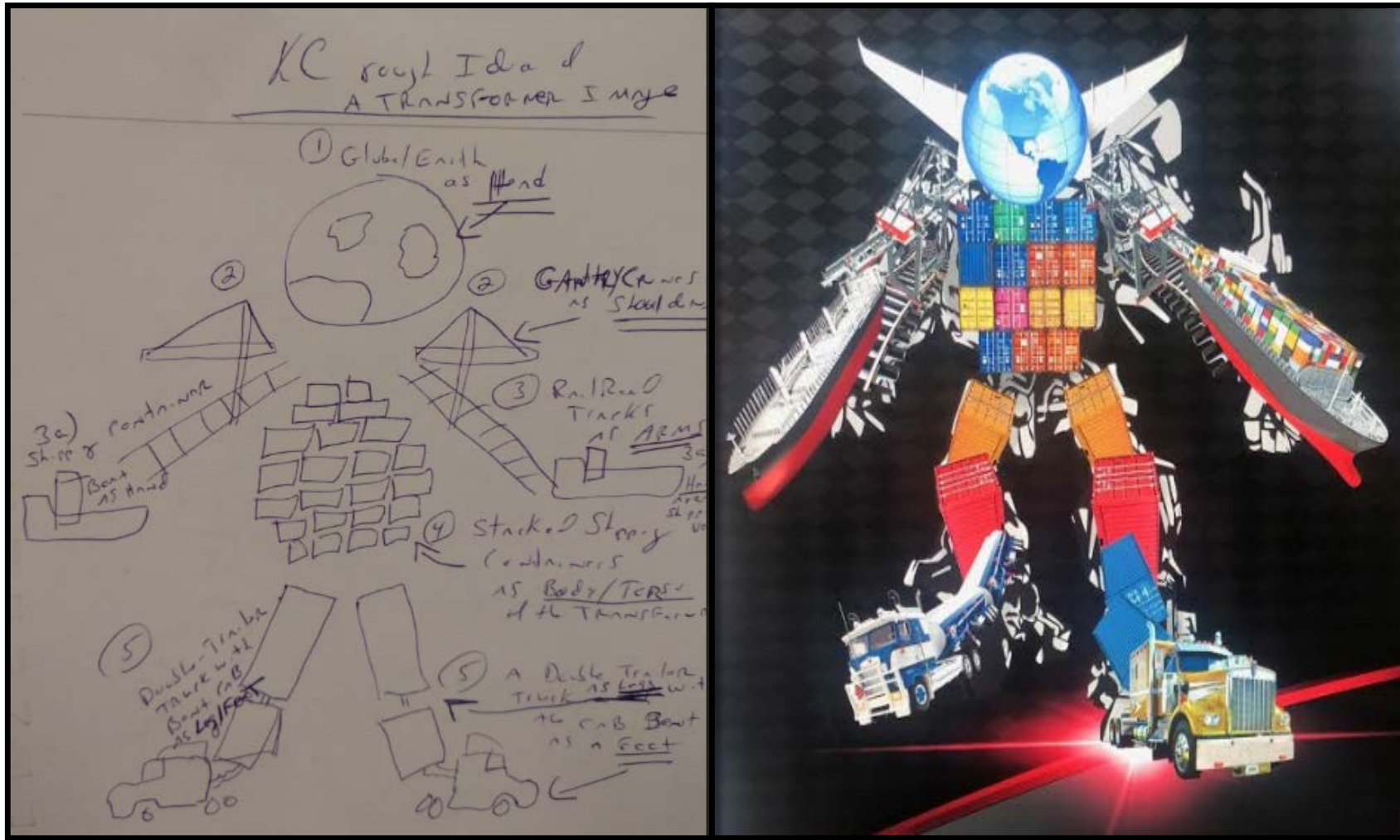
Emory Healthcare is injecting new energy into the revitalization of Atlanta's Northlake Mall. Emory will move into the project's former Sears building, bringing over 1,600 employees onto the mall's campus. Emory will also occupy an additional portion of the 1-million square foot retail center. Emory will lease 224,000 square feet at Northlake, with an option for more space.



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# Top 7 CRE Issues to Monitor: #7 Convergence of Retail & Logistics



<http://www.acre.culverhouse.ua.edu/research/logistics-infrastructure-research> - Feb 8, 2019

## ACRE Logistics Outlook

The shift from **shop-and-take-home** to **online-order and deliver** will result in less retail store square footage, but the tradeoff will be many new fulfillment centers and warehouses aligned with new LI.

E-commerce fulfillment centers will displace one-third of America's 1,100 malls.

From  
**“Shop & Take Home”**  
to  
**“Order Online and  
Deliver to me.”**

# #7 - Walmart Nation & Logistics: OTIF & WALMART Plus

## Walmart tightens on-time, in-full requirements

<https://mail.google.com/mail/u/0/#search/Walmart+OTIF/QgrcJHsHkxVTwFXLmDPkhHHKrgLpPrdfbPL>

New rules require 98% across-the-board compliance starting Tuesday

 Mark Solomon Friday, September 11, 2020



Beginning this Tuesday, the financial stakes of shipping to Walmart Inc. (NYSE:WMT) will get appreciably higher. Effective Sept. 15, the Bentonville, Arkansas-based retail behemoth will **require its suppliers and their carriers to deliver all orders as Walmart required and by their “must-arrive-by” dates 98% of the time or be fined 3% of the cost of the goods.** The adjustment was disclosed in a Sept. 1 Walmart memo, giving its massive supplier and carrier network just two weeks to adjust.

The change to the program, known in the retailing trade as **“on-time, in-full” (OTIF), brings the two components into uniformity for the first time since Walmart launched it in mid-2017.**

## Walmart Plus is here

How interested are Americans?

### Retail stunner: 11% of Americans estimated to already have Walmart Plus

Sep. 30, 2020 9:18 AM ET | About: Walmart Inc. (WMT) | By: Clark Schultz, SA News Editor

- Pipsay Research is out with some [dazzling information](#) on the success of Walmart Plus (NYSE:WMT) and some implications for Amazon (NASDAQ:AMZN).
- The research firm says 11% of American have subscribed to Walmart Plus within two weeks of its launch and 35% are described as "excited" about the unlimited free delivery feature of the service.

IF YOU HAVE ALREADY SUBSCRIBED TO WALMART+, THEN WHICH OF THE FOLLOWING STATEMENTS WOULD APPLY TO YOU?

**45%** I have both Walmart+ and Amazon Prime subscription  
+ + + + + + + + + + + + + + + +

**36%** This is my first such shopping subscription  
+ + + + + + + + + + + + + + + +

**19%** I have migrated from Amazon Prime  
+ + + + + + + + + + + + + + + +

- 38% of the respondents thinks Walmart Plus will be a threat to Amazon Prime, while 33% said no.

[https://pipsay.com/walmart-plus-is-here-how-interested-are-americans/?utm\\_source=Email&utm\\_medium=Text&utm\\_campaign=WalmartPlus&cn-reloaded=1](https://pipsay.com/walmart-plus-is-here-how-interested-are-americans/?utm_source=Email&utm_medium=Text&utm_campaign=WalmartPlus&cn-reloaded=1)



# Top 7 CRE Issues to Monitor: #7 Industrial CRE – What drives Value?

## Prices of US Warehouses with FedEx, Amazon as Tenants

By Wyatt Avery on August 7th, 2020



Distribution warehouses continued to be a target for investors in the second quarter of 2020 amid heightened attention on the backbone of logistics infrastructure.

While sales activity in the U.S. industrial sector dropped during the quarter, buffeted by lockdown restrictions and economic uncertainties, the sector's decline was the smallest of any major property type. And, of the \$11.1 billion in industrial transaction volume, around one-third came from sales of distribution warehouses.

In the table below we show a selection of second quarter property deals with Amazon or FedEx – two delivery behemoths that have benefited from the surge in online shopping during the pandemic – as the sole tenant.

### Selected US Warehouse Transactions Q2 2020

| Property                                     | Location            | Size (sf) | \$/sf | Vol (\$m) |
|--|---------------------|-----------|-------|-----------|
| Kenosha Enterprise Park (Amazon)             | Kenosha, WI         | 1,531,890 | 114.9 | 176.0     |
| Amazon Shakopee                              | Shakopee, MN        | 820,000   | 144.8 | 118.7     |
| Amazon Distribution Center                   | North Las Vegas, NV | 855,000   | 128.7 | 110.0     |
| Amazon CLT3                                  | Concord, NC         | 1,015,740 | 82.7  | 84.0      |
| Florida Crossroads Logistics Center (Amazon) | Ocala, FL           | 617,055   | 94.6  | 58.4      |
| FedEx Ground Distribution Center             | Whitsett, NC        | 270,000   | 176.3 | 47.6      |
| FedEx Freight                                | Fremont, IN         | 118,000   | 170.2 | 20.1      |
| FedEx Distribution                           | Ogden, UT           | 69,734    | 185.0 | 12.9      |

Tip of the hat to RCA for spotting and **highlighting this distinction in warehouse transactions.**

**Appraisers pay attention. This is the kind of data analytics that explains price variations so one doesn't have to resort to an averaging approach to value** that misses the "Why" for price outliers like these highlighted by RCA.

**This type analytics by RCA is what makes them a MVP data analytics company that I rank up there with the likes of a Trepp or rising CompStak.**



## And 1 Final CRE Issue: **ESG – Env. / Social / Governance**



### FedEx Releases 2020 Global Citizenship Report May 7, 2020

<https://newsroom.fedex.com/newsroom/fedex-releases-2020-global-citizenship-report/>

**FedEx & Good ESG** - While many talk "E" & "S" in their ESG profiles, FedEx walks the walk. Covid19 analyses for our CRE industry caused me to miss FedEx's release of their 2020 Global Citizenship report. It's worth a read.

Note for example the following "E" & "S" stats:

\* **"E" - Grow by 96% but cut CO2 emissions by 40%:** FedEx sustainability efforts contributed to a 40% reduction in CO2 emissions across the enterprise from FY09 to FY19, a period in which revenue grew by 96%.

Or, how about this "S" stat:

\* **"S" Diversity - The FedEx Board of Directors includes 13 directors, four of whom are women and three of whom are ethnically diverse. Women represent 23% of FedEx management employees globally, while minorities comprise 37% of management employees in the U.S.**

FedEx is a leader in e-Commerce, Supply-Chain and it does it with good ESG. This is one of those "must-read" report recommendations by the Red-Shoe Economist that is chock-full of information and stats. If you touch supply-chain, e-Commerce, Logistics or ESG, read this 2020 report!

# Concluding Thoughts



Forecasting the Economy  
during COVID  
will be messy;

**But ...**

I may have discovered a  
recipe to combat COVID19.  
I just can't seem to get  
beyond Phase 1 trials  
for some reason.

**Any volunteers for  
Phase II & III trials?**



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