PRESENT
Navigating the Current Economic Conditions and CRE Influences Webinar

Our guest speaker K.C. Conway will explore COVID-19’s effect on commercial real estate, our economic outlook and how professionals can adapt to remain successful as the economy reopens.
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NAIOP / CCIM NE FL Webinar
Navigating the Current Economic Conditions and CRE Influences – July 8, 2020

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“Economics you need for success.”

The CRE Industry needs to step-up its Economic Skills as a result of COVID19. Traditional Metrics’ methodology has changed (CARES & BLS), and new Metrics (TSA Passenger Count) have significant forward-looking value.

Chapter 2 - TANSTAAFL: “There Ain’t No Such Thing As A Free Lunch.”
GDP: Video to Understand GDP in Advance of Q2’s 1st Guess end of July

The U.S. economy contracted 5% in the first quarter of 2020. With the coronavirus crisis continuing into the summer, economists are expecting an even steeper contraction in the second quarter. WSJ’s Carter McColl explains how GDP is calculated and how the coronavirus is impacting the equation. Photo illustration: Jacob Reynolds/WSJ

GROSS DOMESTIC PRODUCT (GDP)
$23,000 billion
$21.43 Trillion

GDP = C + I + G + (X - M)
The Question we all want answered: Are we there yet?

1 month ago on June 11th, the stock market said: “Not there yet.”
Dow plunges 1,861 points, or 7%, for worst ...
Market rout: Dow plunnges 1,800 points

But then < a week ago on June 16th
Retail Sales said:
“We are getting there.”
Retail sales jumped by a record 17.7% from April to May

And now we dismiss May & June BLS jobs reports and worry about the spiking in COVID19 cases.

Arizona, Texas, Florida again report record-high COVID-19 cases

397,016 Announced Cuts in May;
Nearly 1M Due to COVID This Year

Highest Jan-May Job Cuts since CG&C began tracking in 1993
COVID19 Cases Update as States Re-Open & Summer Begins says “Not There!”

COVID19 Perspective for “Are we there yet?”

- # Cases: July 7th = 11.6m (up 2.3m cases in 2 weeks) and 11X the <900k April 1st global tally.
- US Share: Most in the World at 2.9m or 25%

States with lowest cases

- 297,449 New York US
- 273,977 California US
- 266,447 Florida US
- 255,442 Texas US
- 173,211 New Jersey US
- 157,909 Illinois US
- 141,597 Massachusetts US
- 112,427 Michigan US
- 109,994 Pennsylvania US
- 109,926 North Carolina US
- 107,422 Ohio US

Top 5 Countries No longer include one from EU or Mid-East.

https://coronavirus.jhu.edu/map.html
May & June Jobs Report says: “We are there,” right? The Humpty Dumpty April 2020 Jobs Report Vs May’s and then June’s Jobs had a great fall; Now can all the Feds-men & CEOs put Humpty Back Together?

BLS Apr Jobs Report: Total nonfarm payroll employment fell by 20.5 million in April after declining by 870,000 in March.

- **Unemployment rate rose to 14.7%** - the highest & the largest over-the-month increase in the history of the series (back to Jan 1948).

  But really **22%**+ (U-6 Unempl.)

- The number of **unemployed rose by 15.9 million to 23.1 million** in April.

- **The labor force participation rate** decreased by 2.5 percentage points over the month to **60.2 percent**, the lowest rate since January 1973 (when it was 60.0 percent).

- Employment in **leisure and hospitality plummeted by 7.7 million, or 47 percent**

- **Prof. & Bus services shed 2.1m jobs**

- Retail trade declined by 2.1 million

BLS May Jobs Report: Friday’s shocking BLS Jobs number of **+2.5 million jobs** is a "Know What You Don’t Know" report. Be careful.

1st: The real unemployment rate is the U6 at **21.2%**, or 2X that of trough in Great Recession.

2nd: The real unemployment rate did NOT drop; rather many April temporary layoffs with PPP got called back from State re-openings. **We are not reflecting the true damage of permanent layoffs.**

3rd: A lot more bad to come as states have to plug budget holes, Leisure & Travel hunker down and deal with <30% occupancy rates, airlines move only 10% the passenger loads pre-Covid, and the plethora of bankruptcies coming on heels of retailers like JCP, rental car companies like Hertz, and a 1 in 4 small businesses.

Finally, how do you reconcile **ADP's loss of another 2.7 million jobs in May, onset of COVID19 bankruptcy wave, loss of 20.7 million jobs in April and this BLS jobs number of +2.5 million?** Know what you don't know. This is a misleading jobs report. At best, we recalled temporary layoffs as states reopened.

https://www.bls.gov/news.release/empsit.nr0.htm


https://www.bls.gov/news.release/empsit.nr0.htm

Why are so many economists dismissive of May & June BLS reports?

June BLS Jobs report at +4.8 mm jobs. The U-3 Unempl. rate down to 11.1% from 12.4%. The U6 rate down to 18% from 21%. And that news drew characterizations like "The jobs number have lost meaning" (Mark Zandi due to BLS "Misclassifications"), and "somewhat meaningless." The CARES bill has caused havoc with counting the employed.

Two consistent things from June jobs reports: i) ADP & BLS agree that we created jobs (+2.37 mm by ADP and +4.8 mm BLS); and ii) Leisure & Travel saw the most job creation (ADP L&T was +937k / BLS was +2.1 mm).

So why are so many economists dismissive of the June BLS report? 1st, there is a lack of confidence in BLS ability to count ("Misclassifications"). 2nd, business re closings are expected from COVID cases rising which will slow these numbers. 3rd, weekly jobless claims are still running 1.5mm (1.43mm this past week / 1.48 mm the prior week). 4th, Continuous Claims still near 20 mm (19.3m). And 5th, more extending of support like UI, Rent Forbearance from 3 mos to 6 mos by FHFA this week, and FED intervention as FED Presidents like Jim Bullard forecast another financial crisis this Fall from record company bankruptcies. The Red-Shoe Economist encourages all to "Look Under the Hood, and Kick the Tires" on these jobs numbers.
Job Cuts & June Headlines that Suggest “Not There” on Jobs

Job cuts announced by U.S.-based employers totaled 397,016 in May, down 40.8% from April’s total of 671,129, the highest monthly total on record. Despite the drop, May’s total is the second highest monthly total on record since global outplacement and business and executive coaching firm Challenger, Gray & Christmas, Inc. began tracking job cut announcements in Jan 1993.

May’s total is 577.8% higher than the 58,577 job cuts announced in the same month last year. It is 59.8% higher than the 248,475 job cuts tracked in January of 2002, the previous record monthly total prior to April 2020.

So far this year, 1,414,828 job cuts have been announced, 389.5% higher than the 289,010 announced in the first five months of 2019, and the highest January-May total on record. It is 31,995 cuts away from the 1,446,823 cuts tracked in all of 2002, the second highest annual total on record.

“Although we saw a significant drop in May over April, we are still in record territory and the cumulative number of cuts since the pandemic began is staggering,” said Andrew Challenger,
Universal Orlando Lays Off Undisclosed Number of Employees

Universal said it will be supporting the laid-off employees through

1. **severance pay, subsidized health benefits**, and professional reemployment assistance.

   “We are working to structure and strengthen our business for the future in anticipation of the tourism industry taking time to fully recover,” Schroder said.

Universal Orlando closed in mid-March because of the pandemic. In the weeks that followed, Universal’s parent company **Comcast reported a 32 percent revenue loss from its theme parks division**. The closure also led to a delay in construction on the new Epic Universe theme park, which was originally on track to open sometime in 2023.

In April, Universal announced plans to **furlough part-time workers and cut executive pay** in an effort to deal with the financial hit caused by the pandemic.

Universal reopened its CityWalk complex on May 14 with a limited number of shops and restaurants in operation. After receiving state and local approval, Universal reopened its theme parks on June 5, with reduced capacity and new safety and health measures in place.

United Airlines to send ‘warn’ notices to employees about potential layoffs

April: The **-12% decline** worst ever!

May: The **+17.7% increase** best ever!

The 17.7% advance from the prior month, to $485 billion in receipts, was the biggest gain in data going back to 1992, following unprecedented declines in the prior two months, according to Commerce Department.


Be careful, though. **Apparel up 188% over April, but still down 63% YOY May 2019.**

Retailer Stocks surge >5% June 16th. Why? The apparel retail fundamentals have not changed, and are arguably worse than pre-COVID.
Looking Beyond Sales to Retailer Behavior: Some say, “We Are There!”

Now this is how you “Get There,” and why Red-Shoe Economist monitors Earnings!

In the first quarter of 2020, following its temporary store closures, the Company announced temporary pay reductions for many salaried teammates, furloughs of a significant number of its workforce and the suspension of its dividend program and share repurchases, among other measures, to bolster its cash position and maximize flexibility as part of the Company's initial response to COVID-19.

Now, with strong early sales results as stores have re-opened and the expectation to have nearly 100% of its stores re-opened to the public by June 30, 2020, the Company has restored previously reduced salaries for all teammates, except for certain executives, and has returned substantially all teammates from furlough.

On June 10, 2020, the Board of Directors of DICK'S Sporting Goods, Inc. also reinstated the dividend program and authorized and declared a quarterly dividend of $0.3125 per share on the Company's Common Stock and Class B Common Stock. The dividend is payable in cash on June 30, 2020, to stockholders of record at the close of business on June 22, 2020.
New Orders
New orders for Mfg durable goods in May increased **15.8%** or $26.6 billion to $194.4 billion, the U.S. Census Bureau announced June 25th. This increase, **up following two consecutive monthly decreases**, followed an 18.1 percent April decrease. Excluding transportation, new orders increased 4.0 percent. **Transportation equipment led the increase**, $20.9 billion or **80.7 percent** to $46.9 billion.

Key Takeaways:
- May almost erased April’s decline, but net no increase.
- Logistics and e-Commerce companies buying more equipment to keep up with online order activity. Auto purchases are also up and the real encouraging piece of news – especially for AL auto industry.

NAIOP gave us some Hope for “We Are Getting There” in CRE this week

NAIOP survey among its members shows some good news for CRE. Industrial and office tenants are paying their rent - not so much in retail CRE as we all know. Industrial activity strongest among all property types. And most NAIOP professionals seem more optimistic about the time to get past COVID19 impact on the economy. Let’s hope they are right despite the surge in Coronavirus cases.

The BLUE bar is June & is BEST month for transaction activity since lock-up in April

NCAA Economics Final-4 Measures the Red-Shoe Economist is Monitoring

1-part Corporate Earnings, plus 1-part GDP, plus 1-part Jobs means what?

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

The Q2 period Earnings will be the last complete “behavioral” check on the economy before the November elections. A number of other variables will influence the impact on commercial real estate the balance of 2020. Some of those may include:

i. the removal of moratoriums on things like evictions by states as they reopen businesses;
ii. civil unrest emanating from the senseless murder of George Floyd and others that have preceded him, including Ahmaud Arbery in Georgia earlier in 2020; and
iii. business and consumer spending.

The metrics and resources most influencing my outlook on the economy, the trajectory of its recovery, and severity of impact on commercial real estate are:

i. TSA Passenger Count (5 of past 9 days have seen daily passenger travel counts exceed 300,000 – up from less than 100,000 in April);
ii. LTSS (Loans Transferred to Special Servicers) – The hospitality sector has seen this metric move up recently from 2.27% to 11.42%, and the just updated overall LTSS ratio for the May period increased from 4.39% to in excess of 6% (6.07%), according to Trepp Special Servicing. That was an increase of 168 basis points in the month of May. As expected, this surge is primarily due to an increase in the lodging and retail special servicing rates due to the pandemic. Lodging and retail logged an increase of 479 and 322 basis points, respectively. The updated LTSS by property types is as follows:

<table>
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<tr>
<th>Property Type</th>
<th>MAY-20</th>
<th>APR-20</th>
<th>MAR-20</th>
<th>3 MO.</th>
<th>6 MO.</th>
<th>1 YR.</th>
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<tbody>
<tr>
<td>Industrial</td>
<td>1.33%</td>
<td>1.64%</td>
<td>1.59%</td>
<td>1.61%</td>
<td>2.49%</td>
<td>2.54%</td>
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<tr>
<td>Lodging</td>
<td>16.21%</td>
<td>11.42%</td>
<td>2.77%</td>
<td>2.64%</td>
<td>2.07%</td>
<td>2.61%</td>
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<tr>
<td>Multifamily</td>
<td>1.89%</td>
<td>2.02%</td>
<td>2.03%</td>
<td>2.14%</td>
<td>2.50%</td>
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<tr>
<td>Office</td>
<td>2.62%</td>
<td>2.37%</td>
<td>2.39%</td>
<td>2.37%</td>
<td>2.71%</td>
<td>3.71%</td>
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<tr>
<td>Retail</td>
<td>9.31%</td>
<td>6.09%</td>
<td>5.31%</td>
<td>4.96%</td>
<td>5.36%</td>
<td>5.52%</td>
</tr>
</tbody>
</table>

Source: Trepp

iii. CRE Transaction Activity by such sources as Real Capital Analytics;
iv. Corporate Earnings.
# TSA Passenger Count:

## TSA checkpoint travel numbers for 2020 and 2019

https://www.tsa.gov/coronavirus/passenger-throughput

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

<table>
<thead>
<tr>
<th>Date</th>
<th>Total Traveler Throughput</th>
<th>Total Traveler Throughput (1 Year Ago - Same Weekday)</th>
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<td>7/6/2020</td>
<td>755,555</td>
<td>2,748,718</td>
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<tr>
<td>7/5/2020</td>
<td>732,123</td>
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<td>7/4/2020</td>
<td>466,669</td>
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<td>7/3/2020</td>
<td>718,988</td>
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<td>7/2/2020</td>
<td>764,761</td>
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<td>7/1/2020</td>
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<td>6/30/2020</td>
<td>500,054</td>
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<td>6/29/2020</td>
<td>625,235</td>
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<td>6/28/2020</td>
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<td>6/27/2020</td>
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<td>6/26/2020</td>
<td>632,984</td>
<td>2,730,515</td>
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<tr>
<td>6/25/2020</td>
<td>623,624</td>
<td>2,711,222</td>
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</table>
LTSS – Trepp’s Loans Transferred to Special Servicing

FIGURE 1: SPECIAL SERVICING RATE (MAY 19 - MAY 20)

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

<table>
<thead>
<tr>
<th>Property Type</th>
<th>JUN-20</th>
<th>MAY-20</th>
<th>APR-20</th>
<th>3 MO.</th>
<th>6 MO.</th>
<th>12 MO.</th>
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<tr>
<td>Industrial</td>
<td>1.57</td>
<td>1.82</td>
<td>1.36</td>
<td>1.35</td>
<td>1.57</td>
<td>1.94</td>
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<td>Lodging</td>
<td>24.30</td>
<td>19.13</td>
<td>2.71</td>
<td>1.53</td>
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<td>2.41</td>
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<td>Multifamily</td>
<td>3.29</td>
<td>3.25</td>
<td>1.92</td>
<td>1.63</td>
<td>2.02</td>
<td>2.11</td>
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<tr>
<td>Office</td>
<td>2.66</td>
<td>2.40</td>
<td>1.92</td>
<td>1.66</td>
<td>1.87</td>
<td>3.02</td>
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<td>Retail</td>
<td>18.07</td>
<td>10.14</td>
<td>3.67</td>
<td>3.89</td>
<td>3.76</td>
<td>4.44</td>
</tr>
</tbody>
</table>

Source: Trepp

How COVID is Different from 2009:
Who holds the Debt by Lender & Property Type?

US PROPERTY SECTOR EXPOSURE BY LENDER GROUP

Some lenders were more exposed to the sectors facing more difficulty
The Decline in CRE Transaction Activity that initially was large in Asia-Pacific and nominal in the U.S., is now more like the virus spread – it impacts the U.S. too.

CRE Transaction Activity: Where the rubber meets the road in terms of what metrics matter most to our industry.
CRE Transaction Activity: Lastly, one of the four key metrics that I follow to gauge the state of the COVID-19 recession and any recovery from states reopening is CRE Transaction Activity - the other 3 being: i) TSA Passenger Count as my most correlated transportation metric; ii) LTSS, or Loans being Transferred to Special Servicing; and iii) corporate earnings. On June 24th, RCA (Real Capital Analytics) updated this data and provided the following insights and data charts. One can see electrical connection problems with the CRE battery when lifting the hood on the pre-owned and occupied CRE vehicle.

US Commercial Real Estate Sales Sink Further in May

“Sales of U.S. commercial property sank again in May as the Covid-19 crisis kept investors on the sidelines, the latest edition of US Capital Trends reports. Transaction volume fell to the lowest level for a May since 2010 and none of the major property types escaped the continuing rout.”

https://www.rcanalytics.com/usct-overview-may-2020-sink/
Corp. Earnings: Q1 was very Insightful, but Q2 will test the Stock Market Highs

Available here, along with the slides: [https://ccim.com/covid-19#corpEarnings](https://ccim.com/covid-19#corpEarnings)

[https://www.youtube.com/watch?v=jW5OUI0-Ilo&feature=youtu.be](https://www.youtube.com/watch?v=jW5OUI0-Ilo&feature=youtu.be)
Corporate Earnings Insight: COVID-19 Is Changing Everything

Companies Are Telling Us Now How Business Models, CRE Usage, and Valuations of CRE Will Change.

• Accelerated e-commerce in retail does not mean the end of the physical store. (Comp store sales rose in Q1 for Home Depot, Walmart and Target)

• Container Store revealed a new “Click It & Pick Up” site selection criteria in its Q1 earnings. Will other retailers follow suit with “Click It & Pick Up” impacting their site selection and type space to occupy? What legacy stores become functionally obsolete?

• Connect the behavior revealed in earnings to how our CRE investment community needs to rethink: site selection; market analysis; demand/absorption analysis; density ratios in office and restaurants; expense ratios; and occupancy costs.

• Container Store and Chick-fil-A are two forward-thinking companies whose behavior is changing the CRE game.
Paychex, Inc. today announced its results of operations for the **three months ended May 31, 2020** (the “fourth quarter”), and for the **fiscal year ended May 31, 2020** (“fiscal 2020” or the “fiscal year”).

Total revenue decreased 7% for the fourth quarter to $915.1 million. For the fiscal year, total revenue increased 7% to $4.0 billion. Oasis Outsourcing Group Holdings, L.P. (“Oasis”), acquired in December 2018, contributed approximately 4% to the growth in total revenue for the fiscal year. **For the fourth quarter, net income and diluted earnings per share decreased 4%**

“Our performance during the COVID-19 pandemic has shown that we are truly a trusted business partner for our clients. We were well prepared to service our clients in this unprecedented environment due to our investments in technology and our online, SaaS service offerings. In less than 6 days, we transitioned over 15,000 employees to work from home in an effort to keep our employees safe and provide service continuity to help our clients navigate these uncertain times. In this changing work environment, our human capital management solutions and mobility applications have enabled our clients to function and maintain their businesses while working remotely.

We created a COVID-19 Help Center to provide clients with information and tools to navigate the complexities of the Coronavirus Aid, Relief, and Economic Security Act and Families First Coronavirus Response Act, including processing over 400,000 payroll reports to accelerate and simplify the Small Business Administration loan application process and creating an online tool to lessen the complexity of the loan forgiveness program.

We are very proud to have not only navigated the challenges of the last few months, but to have seen even higher client satisfaction and retention as well.}
What are the CRE Value Implications?

The “What-If” NOI & Cap Rate Value Matrix

WHAT WOULD IT TAKE TO SEE ASSET PRICES FALL?

The combination of cap rate and income changes that would drive a 22% price drop.

<table>
<thead>
<tr>
<th>Percent Change in NOI</th>
<th>5.5</th>
<th>5.7</th>
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<td>-34%</td>
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<td>-40%</td>
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Areas in orange are those combinations needed to drive a 22% decline in asset values.

What would these changes look like historically?
Property Types “What-If” Thinking: MF  Breaking Down $1 of Rent – What will it be post COVID19?

How does FORBEARANCE play out (tenants think it’s “Free-Rent”). Tenants move & buy w/o Landlord knowledge while they have savings, job, and credit.

and

MF Owners may find more of the $1 of Rent needs to go to the Lender as all is added to the back-end of the mortgage.

Less NOI with no Cap Rate Change = Value Decline

Workforce MF
Vs.
Student Housing MF

Urban MF
Vs.
Return to the Suburbs


An estimated 25% more Office Work proven to be done remote during COVID.

Big-office space using industries, like FinServ & FinTech, will go “Cubeless”
**MF - What is impact of extending Rent & Loan Forbearance on Market Value?**

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…

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**FHFA Extends Eviction and Foreclosure Moratorium Through the Summer**

*June 17, 2020 by UrbanTurf Staff*

The Federal Housing Finance Agency (FHFA) is extending the eviction and foreclosure moratorium that it put in place at the beginning of the COVID-19 pandemic.

"To protect borrowers and renters during the pandemic we are extending the Enterprises' foreclosure and eviction moratorium," FHFA Director Mark Calabria said in a statement. "During this national health emergency no one should worry about losing their home."

The moratorium, which went into effect in March, will now remain in effect through August 31. The foreclosure moratorium applies to Enterprise-backed, single-family mortgages only.


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- Market Value ignores financing – “cash or …”
- Rent Forbearance is a consideration in: i) credit loss assumption; and ii) market rent regardless of “rent repayment plan” from rent forbearance. Don’t model the rent-repayment into your DCF as that is >Mkt Rent and entangled with financing.
- Loan Forbearance for Borrower/Property Owner is not relevant in a Market Value appraisal.
Hotel CRE

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

May 27, 2020

The Other L&T Industry Impacted by COVID-19

Logistics and Transportation come to the top of mind when L&T is referenced in CRE circles. However, there is another L&T sector, and it is performing much worse during COVID-19 than the more recognized L&T with warehouse properties. The other L&T is Leisure & Travel.

The 95% decline in air travel (according to TSA) from 2.3 million passengers a day through our nation’s airports pre-March 2020 to an average of less than 100,000 in April was the first clue things were going to be quite severe for travel-related commercial real estate, such as hotels. Then came the CRE loan delinquency view from Trepp for April showing hotel CRE had the largest increase in delinquency during Q1 2020 rising from the 1.5% average for all lodging loans to 2.7%. Trepp warned in its May CMBS Delinquency report for the April period that deterioration in lodging loan performance would get worse from here recognizing that hotel occupancy rates were running below 10%-20% range, and liquidity from debt and equity sources had dried up for this property type.

LTSS is the forward-looking indicator of what is to come. And if April’s figure is any harbinger of things to come, the other L&T CRE is in for turbulence and a bumpy ride. The percentage of overall CRE loans with the special servicer grew from 2.63% in March to 4.39% in April. Prior to the April servicer data, 2.27% of all lodging loans were in special servicing. In April, that ratio ballooned to a eye-popping 11.42%. The balance of loans in special servicing nearly doubled in one month from $14.1 billion to over $22 billion.

But the latest clue to just how bad the environment is for Leisure & Travel came from two additional sources over the Memorial Day weekend. First was Real Capital Analytics (RCA) regarding hotel transaction activity; and second was the bankruptcy of car rental company Hertz.

RCA revealed that in April there were a mere 10 hotel transactions nationwide. Putting that limited amount of sales activity into perspective was Jim Costello earlier this week when he stated:

“We have never seen this level of illiquidity in the hotel market. It is effectively a frozen marketplace.”

In his May 20, 2020, RCA Insights feature on hotel CRE, Jim Costello went on to note the following:

- The hotel market was more liquid even in the worst parts of the Global Financial Crisis. The previous low-water mark for sales volume was in April 2009, when deal activity fell to $127 million with 21 properties transacting.
- Deals that closed in April were focused on smaller assets. Six out of the eight hotels that traded had fewer than 100 rooms and only one full-service hotel transacted in the month.
- Cap rates averaged 8.6% in April 2020.

Update: Now 16.2% from 11.42%
Do these new Gov. Imposed Occupancy Restrictions represent a type of Emanant Domain without compensation and permanent value diminution?
"The year Niagara Falls stopped Roaring" may be the best encapsulation of the Leisure & Travel industry from Covid19. With so much focus on Broadway, Disney Theme Parks, Las Vegas, etc., this piece is a good reminder of how L&T is embedded in all state and local economies.

In the US, L&T is 10% of our GDP. In AL - not top of many lists for L&T states - this industry segment is 8% of AL GDP with resorts from Mobile and Orange Beach AL up along the Bobby Jones golf Trail to the lake region and up into the mountains surrounding Huntsville.

Think about all the L&T in your state and city - be it a state park, convention center, music venue, etc. And then think of all they support in jobs, restaurants, sales taxes, etc. What will our Communities, cities, college towns, beaches, mountain towns and Niagara Falls be like post Covid19 if all the small businesses fail? Maybe the Fed should ask that question before it's next purchase of Berkshire Hathaway, Apple or WalMart Corp bonds. Our municipalities and L&T industry need support more than Apple.

Retail e-Volution? Does what we buy or not buy in COVID19 continue post COVID19?

Retail e-Volution: Predictions for 2025
By CCIM Institute Chief Economist K.C. Conway, MAI, CRE

https://www.ccim.com/newscenter/commercial-real-estate-insights-report/retail-e-volution--predictions-for-2025/?gmSsoPc=1

Reflect on Weight Watchers (WW) Earnings & Shopify

The Future Of Retail Is Now, And Shopify Has A Crystal Ball

Shopify Inc. receives a minimal amount of fanfare for a company that finished behind only Amazon (NASDAQ:AMZN) in U.S. eCommerce market share for 2019. SHOP’s market share was 5.9% in 2019, beating out the likes of eBay (NASDAQ:EBAY), Walmart (NYSE:WMT), and Apple (NASDAQ:AAPL).
Sales taxes are the second largest source of state and local tax revenue, accounting for 23.6 percent of total U.S. state and local tax collections. Only property taxes make up a greater share of state and local tax revenue.

#1 - Washington State - has neither a corporate nor an individual income tax but levies a harmful gross receipts tax on businesses—relies the most on sales tax revenue, which accounts for 46.4 percent of its tax collections.

#2 - Louisiana is the second-most reliant with 42.8 percent.

#3 - Nevada, does not have an income tax, comes in 3rd with 41.1 percent.

#4 - Tennessee, does not tax wage income, is 4th with 40.9 percent.
As Coronavirus Sends Port Of Los Angeles Reeling

A stunning development the first time, the result of the impact of the U.S.-China trade war on the venerable California seaport, this time it’s the one-two punch of the ongoing trade war and the coronavirus pandemic that has sent it, the U.S. economy and the global economy, reeling.

This time, unlike last time, it is not likely to be a one-month aberration.

That’s because the most recent U.S. Census Bureau data is for February. Port Laredo passed the Port of Los Angeles before the full brunt of the impact of coronavirus would have even hit the Los Angeles seaport.

http://www.acre.culverhouse.ua.edu/research/logistics-infrastructure-research

Changing from a: “Shop & Take Home” to “Order Online & Deliver” economy

Where we make things & Who owns the Companies that make what we need?

The COVID-19 outbreak is revealing the “where” things are made (maybe too much in China – and not just auto parts and items that go into a WalMart store, but pharmaceuticals and paper products like diapers and toilet paper that are made possible by “fluff pulp” via the port of Mobile). It’s also unveiling how things connect and maybe enable rapid transmission of a coronavirus. For example, China bought a number of luxury retail brand companies in Italy in recent years and then moved their workers to Italy to sustain a “made in Italy” manufacturing claim. That is now the hypothesis for how the coronavirus spread so quickly to Northern Italy - and then Spain and the rest of Europe.
FUTURE TECHNOLOGIES
Percentage of retail, manufacturing and logistics professionals who are currently investing in the following

<table>
<thead>
<tr>
<th>Technology</th>
<th>0%</th>
<th>10%</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
<th>50%</th>
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<tbody>
<tr>
<td>Warehouse automation</td>
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<td>Autonomous vehicles</td>
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<td>16%</td>
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<td>Machine-learning</td>
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<td>16%</td>
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<tr>
<td>Fulfillment robots</td>
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<td>16%</td>
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<tr>
<td>3D printing</td>
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<tr>
<td>Augmented reality</td>
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<tr>
<td>Drones</td>
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<td>11%</td>
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<tr>
<td>Crowd-sourced delivery</td>
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<tr>
<td>Virtual reality and digital twins</td>
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<td>4%</td>
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<tr>
<td>Delivery robots</td>
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61% of professionals expect capacity requirements to increase over the next year.

Modern Materials Handling 2019
49% of warehouse and distribution centre managers say they still use mostly manual processes in order fulfilment

Gartner 2019
50% of large global companies are expected to be using AI, advanced analytics and IoT in supply chain operations by 2023

Gartner 2019
30% of operational warehouse workers will be supplemented, not replaced, by collaborative robots by 2023

https://www.visualcapitalist.com/supply-chains-automation-future/
Trade flows will return in an unpredictable and likely stop-start manner along different trade lanes,” he said. “It will become harder for liners to calibrate their supply responses” and there’s a risk that companies will try and grab market share, spurring drops in rates,

Rail Traffic: Now this is a transportation metric heading in the right direction.

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. Whether that continues is, of course, a separate question, but the worst may be behind us.

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, slightly better than the 25.2% decline in April and 27.7% decline in May. Total carloads averaged 198,564 per week in June, the most since March. For all of Q2 2020, total carloads were down 25.1% 841,633 carloads), the biggest quarterly percentage decline for total carloads on record. J
The Big Market Distortion – Appraisers & Brokers Beware – What’s the Market w/o FED?

Wall Street Records Best Quarter in Decades

US stocks ended higher in the final session of the quarter, with the Dow Jones booking its best quarterly performance since 1987 while the S&P 500 posted its biggest quarterly gain since 1998. The gains reflected investors optimism over a successful reopening of the US economy from coronavirus-induced shutdowns and that the Fed will continue to be aggressive on supporting the economy.
FED Intervention for COVID19: Now >$6.1 Tr in Purchased Securities

(Bloomberg) -- Federal Reserve purchases of exchanged-traded funds invested in corporate debt totaled $1.8 billion in the first six days of the program, according to data published Thursday.

The ETF purchases, which are part of an emergency lending program aimed at backstopping corporate debt markets during the coronavirus pandemic, were revealed in the U.S. central bank’s weekly balance sheet update. The data also showed total assets held by the Fed rose to a record $7.04 trillion in the week through May 20.

The Fed began buying ETFs through its so-called Secondary Market Corporate Credit Facility on May 12. Under the program, it plans to make both outright purchases of corporate bonds as well as ETFs invested in the asset class, including potentially some sub-investment grade debt.

The weekly balance sheet data don’t disclose which ETFs the Fed bought, though the


Fed Balance Sheet in 5 weeks: to $6.1 Trillion (Gulp!)
WASHINGTON (AP) — The Federal Reserve on Sunday released a list of roughly 750 companies, including Apple, Walmart and ExxonMobil, whose corporate bonds it will purchase in the coming months in an effort to keep borrowing costs low and smooth the flow of credit.

The central bank also said it has, so far, purchased nearly $429 million in corporate bonds from 86 of those companies, including AT&T, Walgreen's, Microsoft, Pfizer and Marathon Petroleum.

The Fed announced in March that it would, for the first time in its history, purchase corporate bonds.
Berkshire Hathaway, a company valued at $426 billion, is listed as one of the dozens of companies whose bonds have been scooped up by the Fed lending facility, according to disclosures the central bank made on Sunday. It's not that Berkshire (BRKA) needs or requested assistance from the Fed -- nor that the relatively tiny bond purchases will move the needle for Buffett's massive company. Other blue-chip names including Walmart (WMT), Boeing (BA), ExxonMobil (XOM) and Coca-Cola (KO) also had their bonds bought by the Fed facility, which launched this month. CNN owner AT&T (T) is also on the list.

Warren Buffett doesn't need a backstop from the Fed.“ Still, the fact that Buffett's Berkshire, which is sitting on $43 billion in cash, now has some of its bonds owned by the Fed program underscores just how far the central bank is going to prop up the capital markets. And it raises concerns among some that the Fed experiment is distorting the normal functioning of markets.
A lot of FED Intervention ahead to support Municipalities and State Gov (Muni Bonds, Airport Bonds, Utilities, School Bonds).

And, note we have already had 1st US City go BK in Covid19 era – Fairfield AL.

City of Fairfield files for bankruptcy


Updated May 20, 2020, Posted May 19, 2020

Fairfield makes at least a dozen cities, counties, or governmental agencies in Alabama that have filed for Chapter 9 since 1981.

“Our expenses greatly exceeded our revenues, so we’re just seeking a fresh start” Fairfield Mayor Eddie Penny

“It gives an opportunity to reorganize, reassess our finances.”

Fairfield, a city of just under 12,000 residents west of Birmingham. The city has between 200 and 999 creditors with $1 million to $10 million in liabilities. It’s largest creditor was listed as US Bank with an $18 million unsecured claim.
ALLENTOWN, Pa. (AP) — Unfilled potholes, uncollected trash, unmown grass and, most significantly, fewer police on the street are some of what Allentown says it’s contemplating unless Washington helps it plug a multimillion-dollar budget hole left by the coronavirus pandemic.

Pennsylvania’s third-largest city, with a population of over 120,000, Allentown has largely fended for itself amid sharply falling tax revenue. It’s one of thousands of smaller cities and counties across the U.S. that were cut off from direct aid in the $2 trillion coronavirus relief package passed by Congress in late March. Local officials in those left-out places are now pleading for a massive cash infusion from the federal government to help them stave off financial calamity.

“We represent the average city. If cities like Allentown begin to crumble, that’s how America crumbles,” said City Council member Ce-Ce Gerlach. “So something needs to be done. We need help.”

The federal CARES Act sent $150 billion to states and the nation’s most populous cities and counties to help them pay for expenses related to the virus outbreak. But only 36 cities met the population threshold of 500,000 or more to qualify for the money. With the next round of aid stalled in Congress — and no guarantee of a federal bailout anytime soon — Allentown and other local governments are facing tough choices about what to cut and what to keep.

Allentown predicts a budget deficit of over $10 million, a number officials say could go higher if the economy doesn’t rebound quickly. Like other local governments,

Tax hikes, for now, appear to be off the table. City leaders raised property taxes by 27% two years ago and say residents can’t bear another increase, especially in the middle of a pandemic and historic unemployment.

A $3 trillion relief bill passed in May by the U.S. House, where Democrats have the majority, included nearly $1 trillion for state and local governments. It has no chance of passing in the Republican-controlled U.S. Senate, where prospects for future aid to states and cities remain uncertain.

Allentown, a former industrial center about an hour north of Philadelphia, had been revitalizing its moribund downtown before the pandemic struck. State tax incentives contributed to development that included a new hockey arena, gleaming office buildings and upscale apartments. Yet Allentown remains a poor city, with over a quarter of its residents living in poverty, more than twice the rate of surrounding Lehigh County and Pennsylvania as a whole.

But when we “Get There” ....

What will “Be There?”

- What industries will be the new leaders in our economy, and how will they use Real Estate?

- What becomes of the CRE that housed pre-COVID19 industry leaders? CRE like:
  - Airports (less flights and gates means less ...)
  - Hotels
  - Experiential Retail
  - Restaurants

- Adaptive Reuse needs grow. What backfills?

- Chick Fil A redevelopment store model pre-COVID19 paying huge dividends with more drive thru and 2 kitchens per store.

Barry Wolfe LinkedIn Post:
https://www.linkedin.com/posts/barrywolfeacre_n etleasepro-commercialrealestate-cre-activity-6667801027951022080-FGUt/
Recession or Depression?
Making sense of the various Recession Shapes (V, W, U, and let’s hope NOT L)

V-Shaped Recessions
V-shaped recessions are recessions that begin with a steep fall but then quickly find a bottom, turn back around and move immediately higher. A V-shaped recession is a best-case scenario. The recession of 1990 to 1991 and the recession of 2001—both of which only lasted eight months—are considered to be V-shaped recessions.

W-Shaped Recessions
W-shaped recessions are recessions that begin like V-shaped recessions but then end up turning back down again after showing false signs of recovery. W-shaped recessions are also called “double-dip recessions” because the economy drops twice before a full recovery is achieved. A W-shaped recession is painful because many investors who jump back into the markets after they believe the economy has found a bottom end up getting burned twice—once on the way down and then once again after the false recovery. The recession of 1980 that double dipped in 1981 and 1982 is a great example of a W-shaped recession.

U-Shaped Recessions
U-shaped recessions are recessions that begin with a slightly slower decline but then remain at the bottom for an extended period of time before turning around and moving higher again. The recession from 1971 through 1978—when both unemployment and inflation were high for years—is considered a U-shaped recession.

L-Shaped Recessions
L-shaped recessions are recessions that fall quickly and fail to recover. An L-shaped recession is a worst-case scenario because they offer no hope of recovery. The Japanese recession that began in the early 1990s is considered an L-shaped recession.

K.C. forecasts?
We have Arrived at the END
Time for Q&A
“I no longer listen to what people say,
I just watch what they do. Behavior never lies.”
Winston Churchill
Thank you to today’s sponsor!