



**REAL ESTATE POST-COVID:**

**ARE CHANGES TEMPORARY OR STRUCTURAL?**

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**Welcome To The Fall Conference — Day 1**

**October 6th, 2020**

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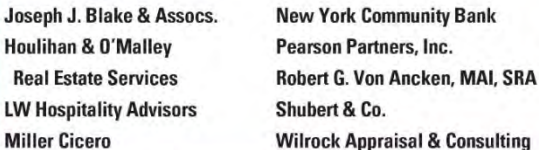
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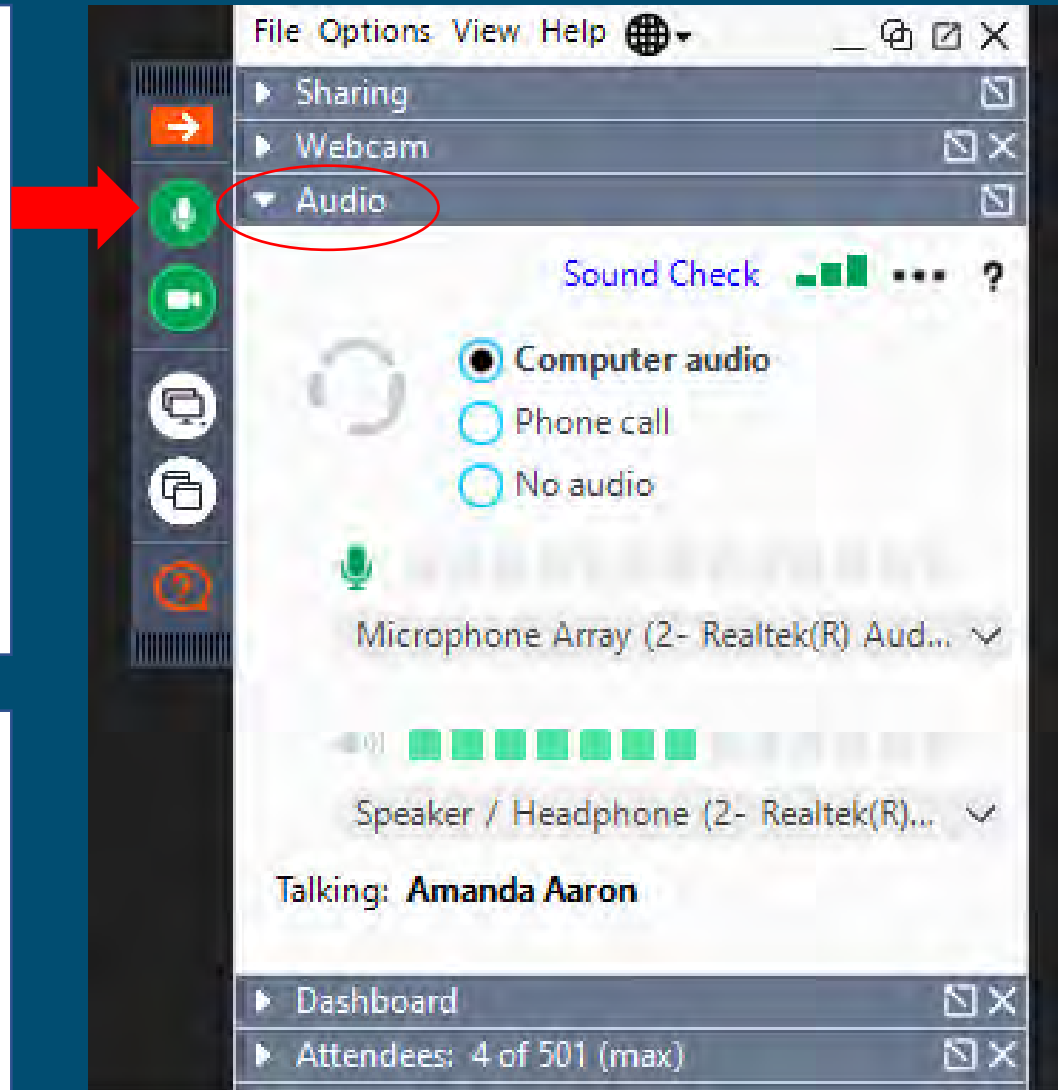
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# K.C. CONWAY, CCIM MAI, CRE



Principal, Red Shoe Economics, LLC

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

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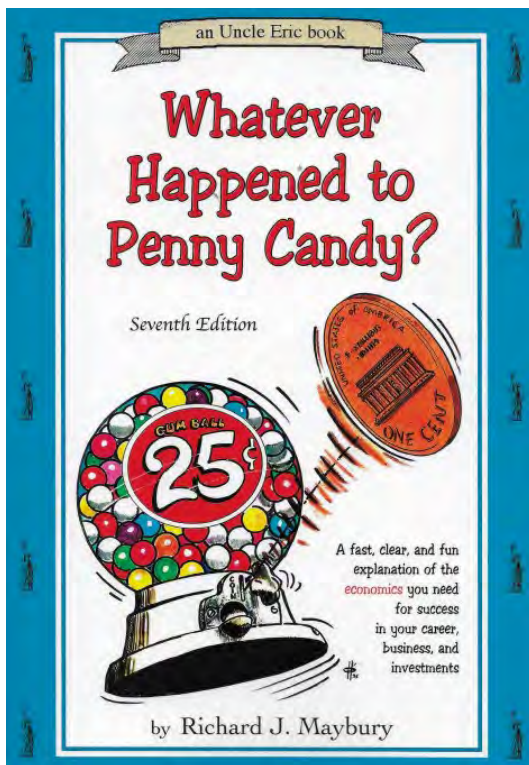


## Reading & Podcast Recommendations

**“Economic  
s you need  
for  
success.”**

**Chapter 2:  
TANSTAAFL**

**“There Ain’t  
no Such Thing  
as a Free Lunch.”**



### Linneman Associates Webinar

Dr. Peter Linneman  
Linneman Associates  
August 13, 2020

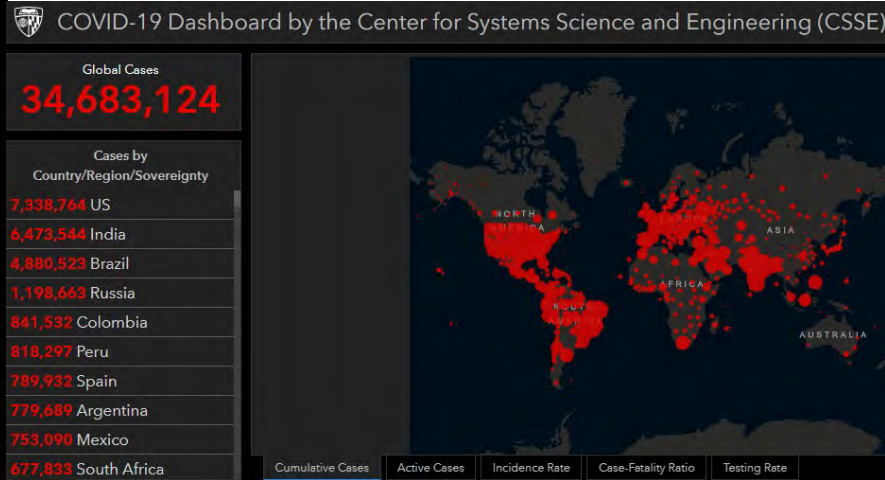
<https://register.gotowebinar.com/recording/viewRecording/285882226243692811/6767876008414682635/jhearn@apexoneip.com?registrantKey=5804820370491838479&type=ATTENDEEMAILRECORDINGLINK>

### Remember When?

- First week of March 2020
- 3.5% Unemployment
  - 157 million employed
  - 5 million unemployed
- 210,000 Jobless Claims
- 2.2% growth GDP on largest economy in history
- Highest household wealth ever
- Longest recovery ever
- Industrial output flat near peak
- Record levels of tourism and leisure activity
- High consumer and business confidence
- Single family starts were starting to see light at the end of the tunnel
- Few consumer or business excesses
- Decent office market fundamentals
- Half of the canaries still chirping



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



▪ # Cases: Sept 13<sup>th</sup> = 28.9 (up 10.0m cases in Sept; and 25X the <900k April 1<sup>st</sup> )

US Share: Most in the World at 7.4m or >20%.  
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.

Country/Region/Sovereignty	Cases by
US	7,338,764
India	6,473,544
Brazil	4,880,523
Russia	1,198,663
Colombia	841,532

Top 5 Countries  
No longer include one from EU or Mid-East. Mexico #9.

India will surpass US!

## U.S. County Rankings:

Rank	County	Cases by US County	Rank
#1	Queens New York US	72,863 confirmed	# 8
#2	Kings New York US	69,319 confirmed	# 9
#3	Clark Nevada US	68,162 confirmed	#10
#4	Riverside California US	59,934 confirmed	
#5	Bexar Texas US	58,039 confirmed	
	San Bernardino California US	55,671 confirmed	
	Orange California US	54,118 confirmed	
	Los Angeles California US	272,659 confirmed	
	Miami-Dade Florida US	171,391 confirmed	
	Cook Illinois US	146,917 confirmed	
	Harris Texas US	146,234 confirmed	
	Maricopa Arizona US	142,566 confirmed	
	Dallas Texas US	82,410 confirmed	
	Broward Florida US	77,631 confirmed	

NY & NJ not #1/#2 by state, but 3 of top-15 counties with cases are in NY. It's not over in NY. Bronx is #15

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

## State Rankings:

826,933 confirmed	California US
782,306 confirmed	Texas US
711,804 confirmed	Florida US
461,629 confirmed	New York US
320,634 confirmed	Georgia US

### Note:

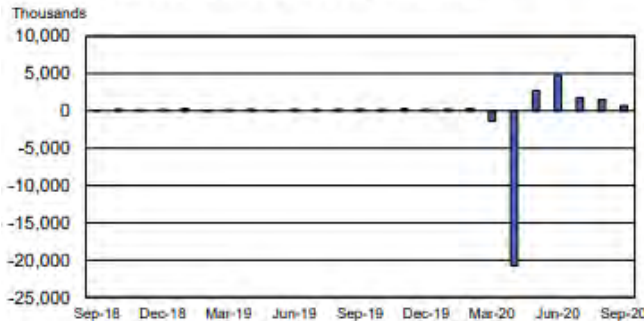
- NY not #1
- NJ Not in Top-5 (#9)
- FL & GA now in Top-5 (new hot-spots)

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

### BLS YoY & MoM Jobs Report

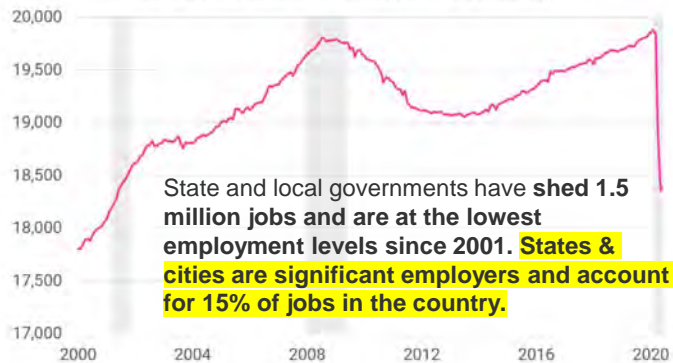
- Sept = +661k
- Slowing from +3mm to +5mm in May & June when states started reopening.
- 11.5 million still out of work from March & April onset of COVID.

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)



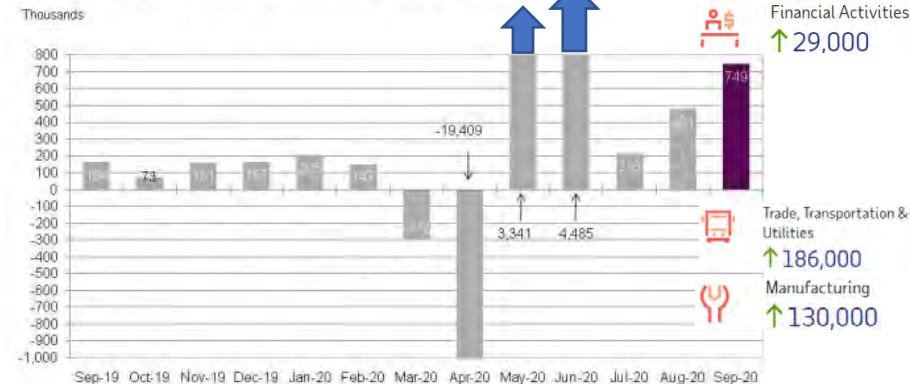
Source: Bureau of Labor Statistics  
Data Release Date: July 2, 2020



### ADP Jobs Report Aug 5<sup>th</sup>

- 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 Apr & May.

Chart 1. Change in Total Nonfarm Private Employment



Source: ADP Research Institute®

- Natural Resources & Mining ↑7,000
- Information ↑17,000
- Financial Activities ↑29,000
- Trade, Transportation & Utilities ↑186,000
- Manufacturing ↑130,000

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

## WALMART NATION

Walmart is the largest private employer in 21 states

- 21 Walmart
- 16 Healthcare
- 8 Education
- 5 Other Company

### TOP PRIVATE EMPLOYERS IN EACH STATE



U.S. WALMART EMPLOYEES  
**1.5 million**

SOURCE: 24/7 Wall St. | Walmart: Governing

visualcapitalist.com

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

### 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>State Ranking:</b> 168,403
Florida	• State Universities 107,460
Georgia	are #1 employer in 60,002
Illinois	NY. 53,687
Arkansas	• <b>NY &amp; NJ NOT among the 21</b> 52,367
Ohio	50,186
Virginia	• Think about 43,623
Missouri	Walmart Logistics 42,029
Tennessee	• Walmart Plus takes 40,598
Indiana	on Amazon Prime 39,875

# #3 Job Cuts: Track **Challenger-Gray** (Cuts are not yet in BLS or ADP)



Job cuts announced by U.S.-based employers in August totaled 115,762, **116% higher than the August 2019 total of 53,480**, according to a monthly report released Thursday by global outplacement and business and executive coaching firm Challenger, Gray & Christmas, Inc.

**August's total is 56% lower than the 262,649 job cuts announced in July. It is the highest total in August since 2002, when 118,067 job cuts** were announced.

**So far this year, employers have announced 1,963,458 cuts, 231% higher than the 592,556 cuts tracked in January-August of 2019.** Announced job cuts in 2020 have surpassed the previous record annual total of 1,956,876 recorded in 2001.

**"The leading sector for job cuts last month was Transportation, as airlines begin to make staffing decisions in the wake of decreased travel and uncertain federal intervention.** An increasing number of companies that initially had temporary job cuts or furloughs are now making them permanent.  
<http://www.challengergray.com/press/press-releases/115762-job-cuts-august-highest-number-cuts-tracked-single-year-record>



**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.**

LAYOFF LOCATION	
Year To Date	
California	372,288
New York	230,539
Florida	206,703
Texas	154,064
Ohio	91,196

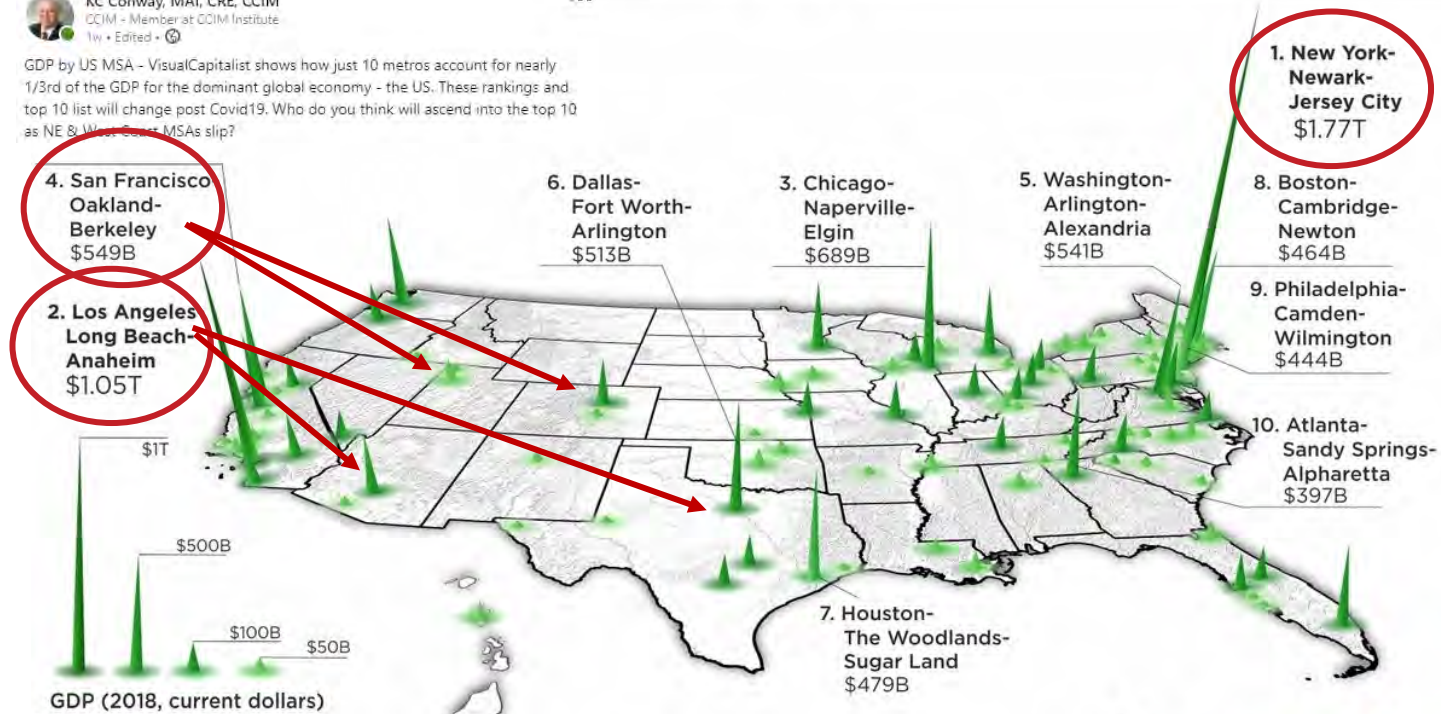
<file:///C:/Users/kcmai/Downloads/Sept%202020%20Job%20Cut%20Report.pdf>

# #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?



Article & Sources:  
<https://howmuch.net/articles/richest-cities-in-the-us>  
 The U.S. Bureau of Economic Analysis - <https://www.bea.gov>

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

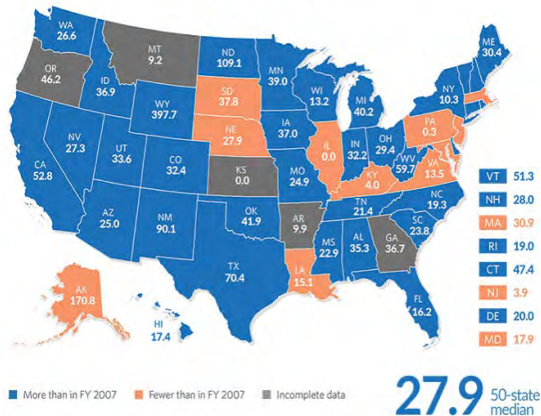
# #5 State Budgets: Chapter 9 BK of MSAs and Counties ahead

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

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

Pre-Covid, NY 10 days, NJ 4 & PA <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



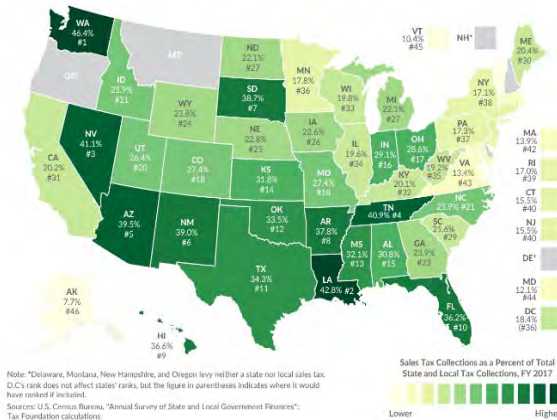
Source: Pew analysis of data from the National Association of State Budget Officers  
 © 2020 The Pew Charitable Trusts

### Sales Taxes as % of Revenue

**TN & FL highest in SE (41%/36%)**

How Much Does Your State Rely on Sales Taxes?

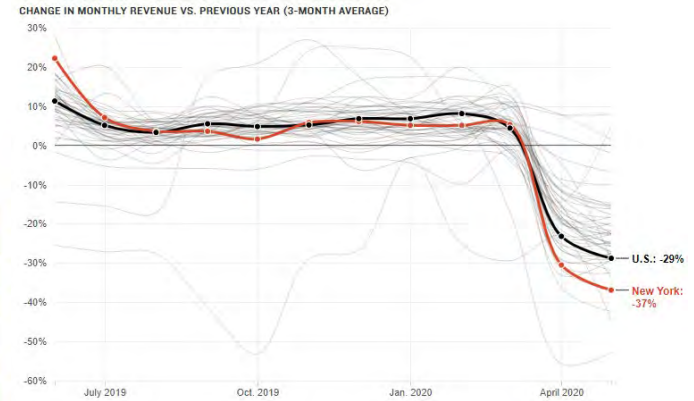
Sales Tax Collections as a Percent of Total State and Local Tax Collections, FY 2017



Note: "Delaware, Montana, New Hampshire, and Oregon levy neither a state nor local sales tax. D.C.'s rank does not affect state ranks, but the figure is parentheses indicates where it would have ranked if included.

Sources: U.S. Census Bureau, "Annual Survey of State and Local Government Finances"; Tax Foundation calculations.

**NY & NJ down 37% & 36%, respectively.**  
**US avg Revenue drop for all states: -29%**



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

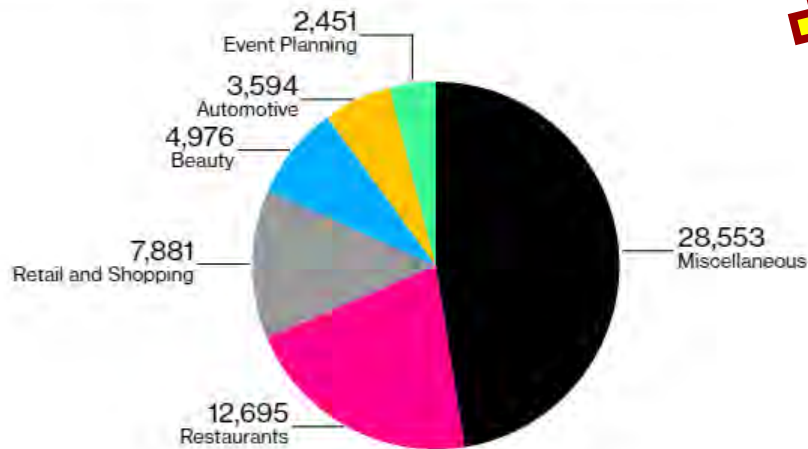
"With dwindling cash, cuts to education, health care and other areas are inevitable in many places. **State leaders have described the situation as unprecedented, horrifying and devastating.**" Maryland Governor Larry Hogan, a Republican, said, "Responding to this crisis has created a multiyear budget 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-unaccounted?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-unaccounted?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 Watch](#) 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 Businesses ([NFIB - Small Business Optimism Report](#)); iv) National Center for Middle Market compa ([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.

# #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.

16



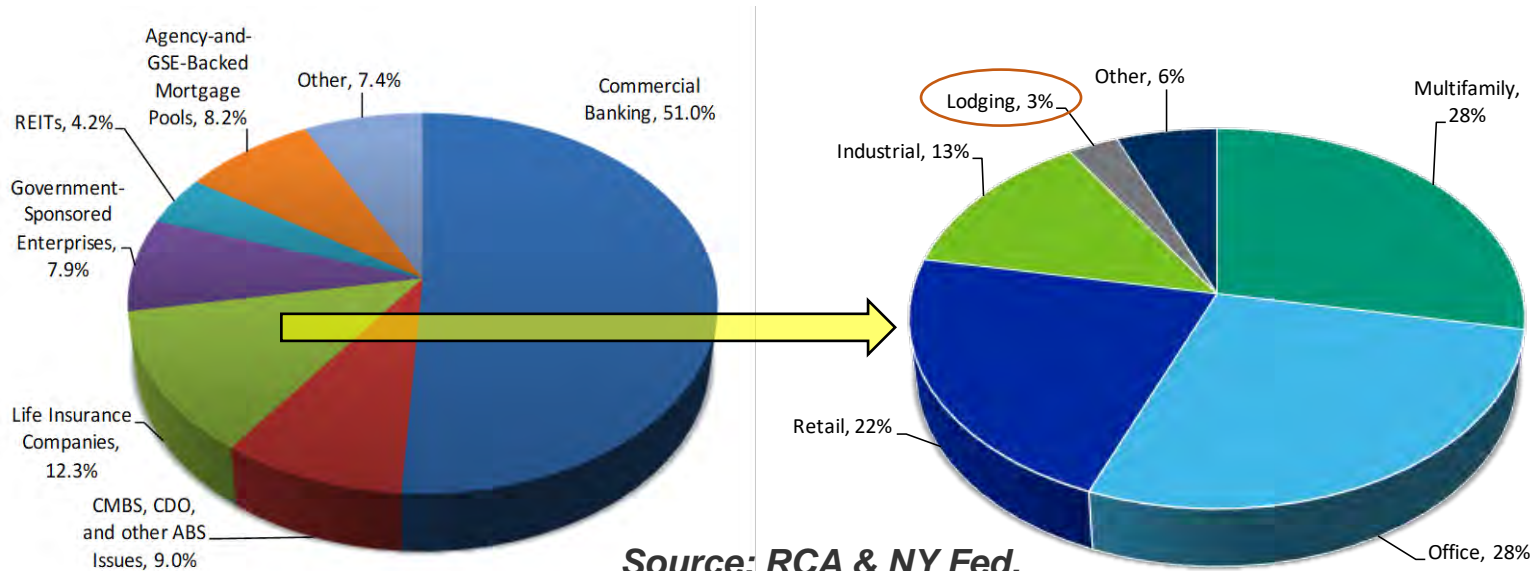
**North American Freight Rail Traffic in June 2020**  
 U.S. rail volumes in June weren't close to where they would have been absent the pandemic, but for the most part they were better than in April and May, so at least they're heading in the right direction. Intermodal did relatively well in June. 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. Total carloads</b>					
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%
<b>Total carloads excl. coal</b>					
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%
<b>Total intermodal</b>					
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



**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.

[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=)

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



## LTSS

## CMBS DQT

Aug Update – Calm during Eye or stabilizing?

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>



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>

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

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

CMBS DQT and LTSS 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	1,475,702,235	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

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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**



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

<http://www.acre.culverhouse.ua.edu/explore/stories/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%.

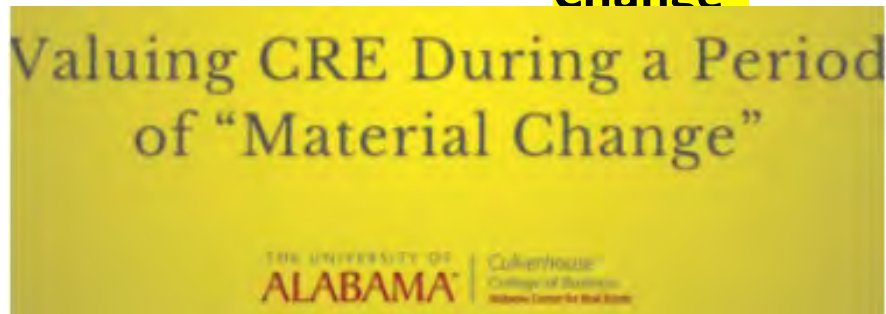
**Do these new Gov. Imposed Occupancy Restrictions represent a type of Eminent Domain (A taking without compensation) and permanent value diminution?**

2

- **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



[KC@RedShoeEconomics.com](mailto:KC@RedShoeEconomics.com)

## 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 Adj. required as in 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: #3 Valuation Refresher

### Appraisal Concept #1 - Market Value:

Market Value seems like a simple enough concept – what does the “market” think the value is based on transactions? Unfortunately, it is much more complex. Market Value has been a confusing term in real estate valuations dating back to the 1950s. In the first *Encyclopedia of Real Estate*

*Appraising* published in 1959 with contributions by all the National Appraisal Society Affiliations (including the predecessor to today’s **Appraisal Institute**, the **Appraisal Institute of Real Estate Appraisers – AIREA**), it identified the innumerable kinds of value used in the appraisal and lending industries. It identified **seventy-six value definitions in use back then**. Some of the definitions that survive today included Fair Market Value, Going Concern Value, Insurable Value, Intangible Value, Stabilized Value, and yes - Market Value. However, some value types not so common today that are among my favorite from this inaugural source text on real estate appraisal include:

- **True Market Value** – defined in 1959 as “an improper qualification of the term market value designed to promote the impression that there is more than one market value.”
- **Equitable Value** – An improper term designed to promote a special concept of fairness and equity whose roots were based in condemnation. It implied that “just compensation” was somehow not adequately reflected in market value.
- **Face Value** – An accounting term in the 1950s generally denoting the stated dollar worth of a formal document evidencing indebtedness.
- **Full Value** – An improper term implying under certain conditions that there is an element of worth over and above that contemplated in market value.
- **Junk Value** – A price concept reflecting worth of materials in a structure to be dismantled and sold as scrap. Synonymous with scrap value.

### Appraisal Concept #2 – Highest & Best Use:

All valuation analyses of market value commence with a Highest and Best Use (“HBU”) analysis. This concept does not assume that current use is still economically feasible or maximally productive. **Assessors assume current use still checks the four HBU boxes of being: i) legally permissible; ii) physically possible; iii) economically feasible; and iv) maximally productive** (creates the most profit from the range of feasible uses). Now comes COVID-19 and shelter-in-place orders, occupancy restrictions and an explosion in e-commerce everything, remote work, digital school, etc. **Investors, lenders, brokers, and appraisers now need to ask basic HBU questions like:**

- Is a hotel economically feasible with 50% occupancy restrictions?
- Is retail a continued use when all goes on-line and retailers no longer have the same dependence on physical stores to sell merchandise?
- What does a 75% reduction in business travel airline passengers foretell for the HBU of convention centers, airports, car rental facilities, etc.?

Hotels, office buildings and retail stores are undergoing a change in HBU. They are suffering from both functional & economic obsolescence that must be accounted for in the valuation process.

**Analyzing quarterly corporate 10(q) earnings filings is one of the best ways to understand and document this change.** Retailers are telling us how **“Click It & Pick Up” needs to be a component of the “physically possible” element of HBU.** Hotels are conveying that **occupancy restrictions are an element of “legally permissible”** that needs to be re-evaluated in HBU. Office – Eco Feasibility with density 1/3<sup>rd</sup> and hours to get up elevators?

### Appraisal Concept #3:

23 **Contract Rent and Economic Rent are not Market Rent: CompStak**

# 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.

Millions of Rental Households



## 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?



## BREAKING DOWN \$1 DOLLAR OF RENT

There exists a misconception that rental housing owners enjoy large margins and can continue operating in the absence of rent payments.

With so much discussion around rent payments during COVID-19, the rental housing industry would like to explain the breakdown of \$1 dollar of rent.



Only 9 cents of every \$1 are returned to owners, including the many apartment owners who are themselves small businesses and rely on this revenue to make ends meet and investors, which include public pensions and 401ks, on which many Americans rely—whether or not they reside in rental housing.

10 cents of every \$1 is spent on capital expenditures, including roof and HVAC replacement and other important repairs that help ensure quality housing for America's 40 million rental housing residents.

Approximately 39 cents of every \$1 pays for the mortgage on the property. Roughly two-thirds of the apartment industry has private lenders and are ineligible for federal mortgage forbearance via the CARES Act. This is a critical expense, as mortgage foreclosures put all residents at risk of losing their housing.

27 cents of every \$1 covers payroll expenses, including paying employees who operate and maintain the property, ongoing maintenance, utilities, insurance and the like.

14 cents of every \$1 goes to property taxes, which in turn supports the community through financing for schools, teachers, emergency services and other important local needs.

Between mortgage payments and investor returns, which help support many Americans' retirement plans, and dollars put back into the apartment community to ensure quality living for residents, a rent payment is much more important than one might otherwise realize.

Source: National Apartment Association 2019 Survey of Operating Income & Expenses in Rental Apartment Communities; U.S. Census Bureau 2015 Rental Housing Finance Survey; RedShoe Residential

#JBRECDailyInsight John Burns Real Estate Consulting



# 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

**THE REAL DEAL**  
NEW YORK REAL ESTATE NEWS

### 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->

[su!](#) 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.

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.

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

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



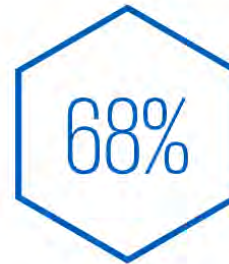
We will continue to build on our use of digital collaboration and communication tools.



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/insights/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 – Remote Work post COVID?

### These companies are working from home until 2021 -- or forever

<https://www.cnn.com/2020/08/02/business/companies-work-from-home-2021/index.html>

These companies announced that employees won't be going back to the office until at least 2021:

- Google
- Universal Music Group
- Warner Music Group
- Sony Music
- Amazon corporate
- Viacom
- Scotiabank
- RBS (Royal Bank of Scotland)
- Group Nine Media
- Indeed

The retailer, which announced it was building the outdoor-friendly campus in 2016 and began construction in 2018, said in a statement that its headquarters would ultimately be made up of multiple “satellite” locations across the Seattle area and that it would “lean into remote working as an engrained, supported and normalized model” that could also allow employees to work outside the region.

### REI plans sale of HQ campus as the retailer embraces remote work

These companies told their employees that they don't ever have to come back to the office:

- Facebook
- Twitter
- Square
- Slack
- Shopify
- Zillow

Siemens to let staff 'Work From Anywhere' permanently

By SightsIn Plus - July 17, 2020



<https://sightsinplus.com/news/jobs-news/siemens-to-let-staff-work-from-anywhere-permanently/?amp>

<https://www.washingtonpost.com/business/2020/08/12/rei-seattle-headquarters-commercial-real-estate/>

## 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



28

# Top 7 CRE Issues to Monitor: #6 Retail upended by eCommerce

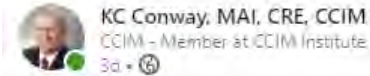
<https://coresight.com/research/us-store-closures-more-retailers-shift-to-e-commerce-at-the-expense-of-stores/>

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



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

<https://www.linkedin.com/in/kc-conway?m=ma-cres-10320812/detail/recent-activity/>



Retail Bankruptcies and Store Closures - The pain continues. This NE and FL retailer is just the latest casualty of Retail e-Volution (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

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

- 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.



## 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**

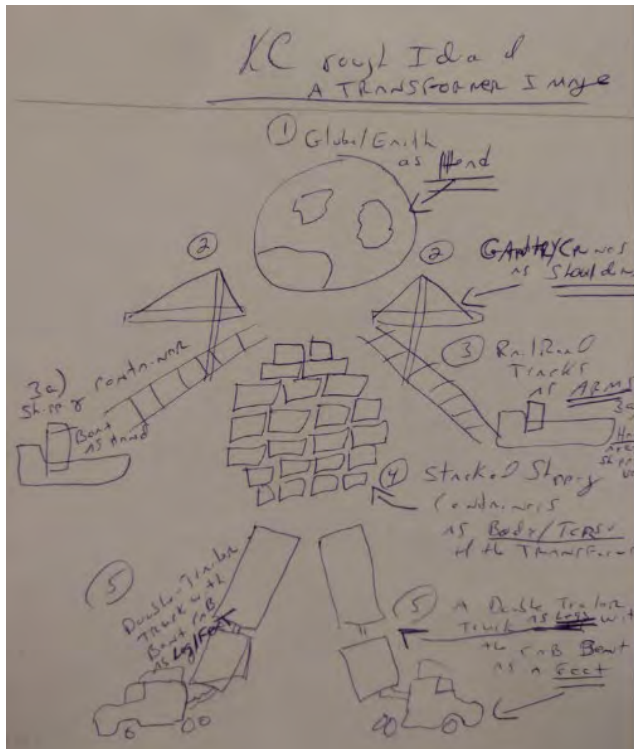
Executive Vice President at NAI Robert Lynn



**Atlanta: Emory Univ & 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



## 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.”**

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



# Top 7 CRE Issues to Monitor: #7 Industrial CRE & Logistics

**Forbes**



## Port Laredo Again No. 1 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.**



## The Next Phase of the Retail Apocalypse: Stores Reborn as E-Commerce Warehouses

<https://www.wsj.com/articles/the-next-phase-of-the-retail-apocalypse-stores-reborn-as-e-commerce-warehouses-11595044859>

Projects begun or completed since 2017 transformed 14 million square feet of former retail space into 15.2 million square feet of industrial space, most of it for e-commerce distribution. That's still a relatively small proportion of the 14.5 billion square feet of industrial real estate in the U.S.

U.S. Research Report

### INDUSTRIAL MARKET OUTLOOK Q1 2020

The U.S. Industrial Sector Outperforms Year Over Year as Market Uncertainty Looms

**What is added warehouse demand from "Supply-Stock" replacing Just-in-Time" 1980s inventory mgmnt?**

- It's a new cost.
- 250msf+ new demand
- Don't clog-up the e-Commerce warehouses with it.

#### Summary Statistics | Q1 2020

U.S. Industrial Market

Vacancy Rate	5.2%
Change From Q1 2019	0.2%
Markets With Lower Vacancies Compared With Q1 2019	42.9%
YTD 2020 Net Absorption	63.5 MSF
Markets with Positive Absorption	54
YTD 2020 New Supply from Construction	84.0 MSF
New Supply to Inventory	0.5%
Under Construction	329.3 MSF
<b>ASKING RENTS</b>	
PER SQUARE FOOT PER YEAR	
Average Warehouse/Distribution Center	\$6.18

# #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% cross-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: Clam Schults, SA News Editor

- Piplsay 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.



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

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



KC Conway, MAI, CRE, CCIM

ACRE - Alabama Center for Real Estate / CCIM Chief Economist | kconway@gm...

11m •

**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!

# ESG – What is it and Who Scores it?

KC Conway, MAI, CRE, CCIM  
CCIM - Member at CCIM Institute  
TW

ESG and Ecological threats by country across the globe - Some interesting charts and stats in this Statista feature if you follow ESG and ecological threats. I found it interesting that they now include "food security" as one of the metrics used in the ecological threats; War and dictators starving their people is not an ecological threat; it is a geopolitical influence. I would like to see these stats and charts redone taking out the "food security" element as there may be some double counting going on with droughts, etc.



The Institute for Economics and Peace recently released its inaugural [Ecological Threat Register](#) which examines the number of ecological threats faced by 157 countries and territories. It focuses on population growth, water stress, [food insecurity](#), droughts, floods, cyclones, rising temperatures and sea levels. The analysis is unique in that it combines measures of resilience with the most comprehensive ecological data available to highlight the countries and territories least likely to cope with ecological shocks now and in the future.

**The 19 countries with the highest number of ecological threats in 2020 are also among the world's least peaceful nations, including [Afghanistan](#), Syria, Iraq and Chad.**

**The research states that more than one billion people live in 31 countries where resilience levels are unlikely to sufficiently withstand the impact of ecological events by 2050, resulting in mass population displacement.**

[https://www.statista.com/chart/22991/number-of-ecological-threats-faced-by-countries/?utm\\_source=Statista+Global&utm\\_campaign=c56f8170c6-All+InfographTicker+daily+COM+AM+KW39+2020+We&utm\\_medium=email&utm\\_term=0\\_afecd219f5-c56f8170c6-300698949](https://www.statista.com/chart/22991/number-of-ecological-threats-faced-by-countries/?utm_source=Statista+Global&utm_campaign=c56f8170c6-All+InfographTicker+daily+COM+AM+KW39+2020+We&utm_medium=email&utm_term=0_afecd219f5-c56f8170c6-300698949)

## Concluding Thoughts

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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.

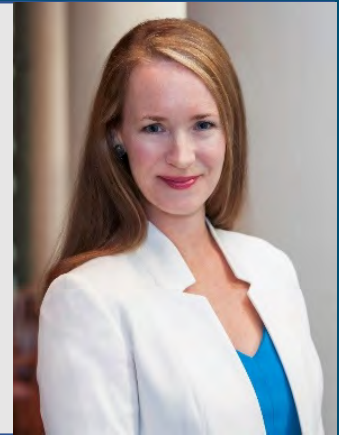
**Any volunteers for  
Phase II & III trials?**



# FOCUS ON SECTORS

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Please enter your name in the Question Box. If you have trouble, email your name to [fallconferencehelp@gmail.com](mailto:fallconferencehelp@gmail.com)

**RESUME AT  
11:02 AM**



# HOSPITALITY MARKET UPDATE



**Daniel Lesser, MAI**  
President & CEO  
LW Hospitality Advisors

# U.S. Lodging Industry 2020

## Real Estate Post-COVID: Are Changes Temporary or Structural?



### Metro New York Chapter ANNUAL FALL CONFERENCE

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**October 6, 2020**



# U.S. Lodging Industry 2020

## RevPAR Decline Was Unprecedented

Total U.S. RevPAR % Change, by month, 1/1990 – 08/2020



Source: STR, 2020 © CoStar Realty Information, Inc. 7

Daniel H. Lesser  
President & CEO

# U.S. Lodging Industry 2020

## Post-COVID U.S. & New York Lodging Market Performance

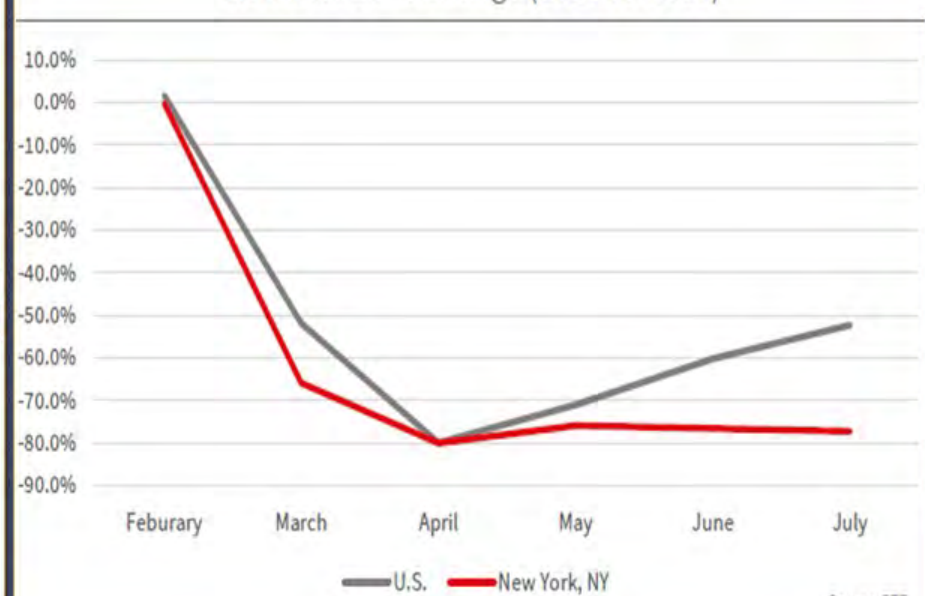
United States Hotel Performance - YTD July 2020 Source: STR

	Occupancy			ADR			RevPAR		
	2020	2019	% Chg	2020	2019	% Chg	2020	2019	% Chg
February	62.2%	62.0%	0.2%	\$130.78	\$128.95	1.4%	\$81.33	\$80.01	1.7%
March	39.4%	68.2%	-42.3%	\$110.66	\$132.57	-16.5%	\$43.54	\$90.46	-51.9%
April	24.5%	67.8%	-63.9%	\$73.23	\$131.73	-44.4%	\$17.93	\$89.36	-79.9%
May	33.1%	68.6%	-51.7%	\$79.57	\$132.38	-39.9%	\$26.34	\$90.81	-71.0%
June	42.8%	73.6%	-41.8%	\$91.50	\$133.76	-31.6%	\$39.19	\$98.42	-60.2%
July	47.4%	73.9%	-36.0%	\$99.87	\$134.06	-25.5%	\$47.29	\$99.13	-52.3%

New York, NY Hotel Performance - YTD July 2020

	Occupancy			ADR			RevPAR		
	2020	2019	% Chg	2020	2019	% Chg	2020	2019	% Chg
February	77.4%	76.5%	1.2%	\$179.60	\$182.06	-1.3%	\$139.09	\$139.37	-0.2%
March	34.5%	84.0%	-58.9%	\$180.06	\$216.89	-17.0%	\$62.15	\$182.25	-65.9%
April	35.9%	88.0%	-59.3%	\$127.73	\$260.09	-50.9%	\$45.81	\$228.98	-80.0%
May	47.2%	89.3%	-47.1%	\$126.60	\$277.70	-54.4%	\$59.77	\$248.01	-75.9%
June	44.4%	90.6%	-51.0%	\$127.36	\$266.21	-52.2%	\$56.53	\$241.11	-76.6%
July	37.0%	89.4%	-58.6%	\$126.62	\$230.63	-45.1%	\$46.86	\$206.14	-77.3%

RevPAR YOY % Change (2020 vs. 2019)



Source: STR

# U.S. Lodging Industry 2020 Q2 Major U.S. Hotel Sales

	Q2 2019	Q2 2020	% Chg
Transactions >\$10M	35	6	-83%
Total Transaction \$	\$2.6B	\$246M	-91%
Hotel Keys	9,100	1,459	-84%
Avg. Sale Price Per Key	\$286,000	\$169,000	-41%



Daniel H. Lesser  
President & CEO

# U.S. Lodging Industry 2020

## Q3 Major U.S. Hotel Sales

	Q3 2019	Q3 2020	% Chg
Transactions >\$10M	40	12	-70%
Total Transaction \$	\$3.725B	\$829M	-78%
Hotel Keys	13,100	2,705	-79%
Avg. Sale Price Per Key	\$283,000	\$307,000	8%



Daniel H. Lesser  
President & CEO

# U.S. Lodging Industry 2020 **Post COVID - 19 Data Point**

## Sunstone Hotel Investors Sells Renaissance Baltimore Harborplace Hotel for \$80M

Posted on July 8, 2020 by Alex Tostado in Acquisitions, Hospitality, Maryland, Southeast



## Amazon Acquires Pentagon City Hotel for \$148M, Setting Stage for Next Phase of HQ2

SEPTEMBER 23, 2020

COMMERCIAL OBSERVER



## Residence Inn Next To Amazon HQ2 Sells For \$99M

August 12, 2019

BISNOW

## Ashford Walks Away From Recently Acquired Manhattan Hotel

BISNOW

August 25, 2020



## Ashford Hospitality Trust Acquires Embassy Suites in Manhattan for \$195M

REBUSINESS ONLINE

January 24, 2019

Daniel H. Lesser  
President & CEO

# U.S. Lodging Industry 2020 Permanent Closures



Daniel H. Lesser  
 President & CEO



# U.S. Lodging Industry 2020

## Ripe For Permanent Closure & Redevelopment



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President & CEO



# U.S. Lodging Industry 2020

Been There, Done That, Doing It Again



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# U.S. Lodging Industry 2020

**Real Estate Post-COVID: Are Changes Temporary or Structural?**



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