



## National & Local Economic Outlook July 16, 2020

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Culverhouse  
College of Business

Alabama Center for Real Estate



**CCIM Institute**  
Commercial Real Estate's  
Global Standard for Professional Achievement

# Disclaimer: Not in fine print...



## **Fort Bend Economic Development Council** July Monthly Meeting - Virtual

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# ACRE Website, Accessing WIN, Research, & Presentations ...

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

ACRE WIN WEDNESDAY INSIGHTS with K.C. Conway

ACRE WiRE WEEK IN REAL ESTATE

Explore ACRE

CORONAVIRUS [COVID-19]

explore Real Estate today

CCAP Collegiate Career Assistance Program

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

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.**

July 8, 2020



## Preparing for Q2 Earnings Season

Our first full calendar year quarter impacted by the coronavirus just concluded on June 30, 2020. Now the real test of the record stock market highs, along with the May and June 2020 Jobs reports, are going to get a [Look-Under-the-Hood](#) via Q2 corporate earnings. A Fourth of July [Bloomberg](#) feature titled "A \$10 Trillion Rally Hinges on Earnings Nobody Has a Clue About" best characterizes the confusion and anxiety in advance of the onset of Q2 Earnings-Season starting next week. **Why the confusion and anxiety?**

ACRE Research Explore Research

Explore Research Commercial Research Opportunities

KC'S SLIDE DECKS

CALENDAR OF UPCOMING PRESENTATIONS

KC'S TRAVEL MAP

K.C. Conway  
Director of Research & Corporate Engagement

## K.C.'s Jan 2020 View

### “Pitcher Influences”

It starts with a change in focus from the  
**Glass is half-full** or half-empty  
to  
**Who controls the pitcher**



Trade Deals: China, USMCA, & China 1.0  
NFIB Small Bus. Optimism (39 > 100)  
REIT Returns – All about Yield  
CPPI (Green Street & RCA)



Trade & Logistics: USMCA, China, **UK Independence**  
Political Divide - 2020 Elections/Impeachment  
Transportation – Air, Rail, Ports, **Rebuild AL**

CRE Capital – **LIBOR Transition**, **Fed & 10-Yr Tr**  
U.S. Debt and Glo

**Construction Costs** – Labor, Materials + Taxes & Insur  
Lease Accounting ASC 842 now Jan 1, 2021

**BOEING** – **Largest U.S. Exporter**  
**ESG** – Env. Social Governance

**Zebras vs Unicorns** – Salesforce, Goldman &  
Starbucks from WES/Davos & Q4 Earnings

The FED, Monetary Policy, **Inverted Yield Curve**



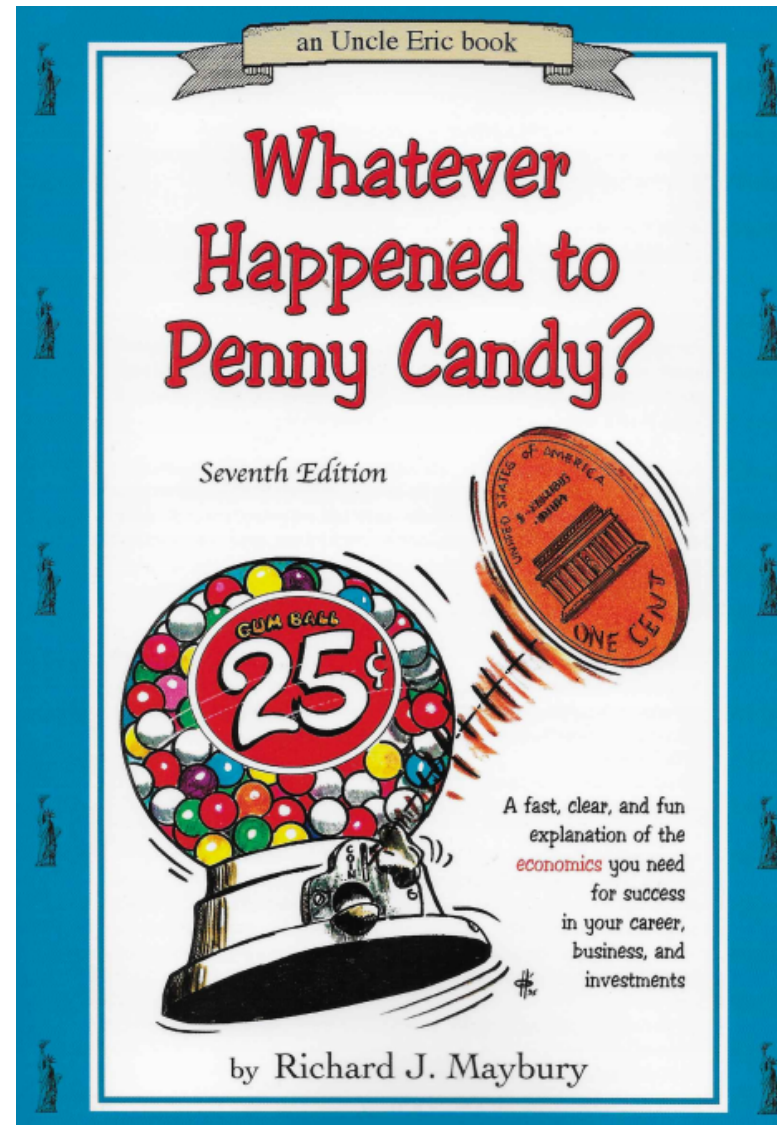
Black Swan events like **Corona Virus**

Corp. Earnings – “**Self-Inflicted**” like  
**Boeing, Under Armour, Facebook, etc.**

# Opening Perspective & Reading Recommendation

*“Economics  
you need for  
success.”*

**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.”*

# The Question we all want answered: **Are we there yet?**

- ➡ 1 month ago on June 11<sup>th</sup>, the stock market said: **"Not there yet."**

Dow plunges 1,861 points, or 7%, for worst ...  
Market rout: Dow plunges 1,800 points

- ➡ But then < a week later on June 16<sup>th</sup> 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

 Challenger Gray & Christmas, Inc.  
Guiding Change ... Getting Results

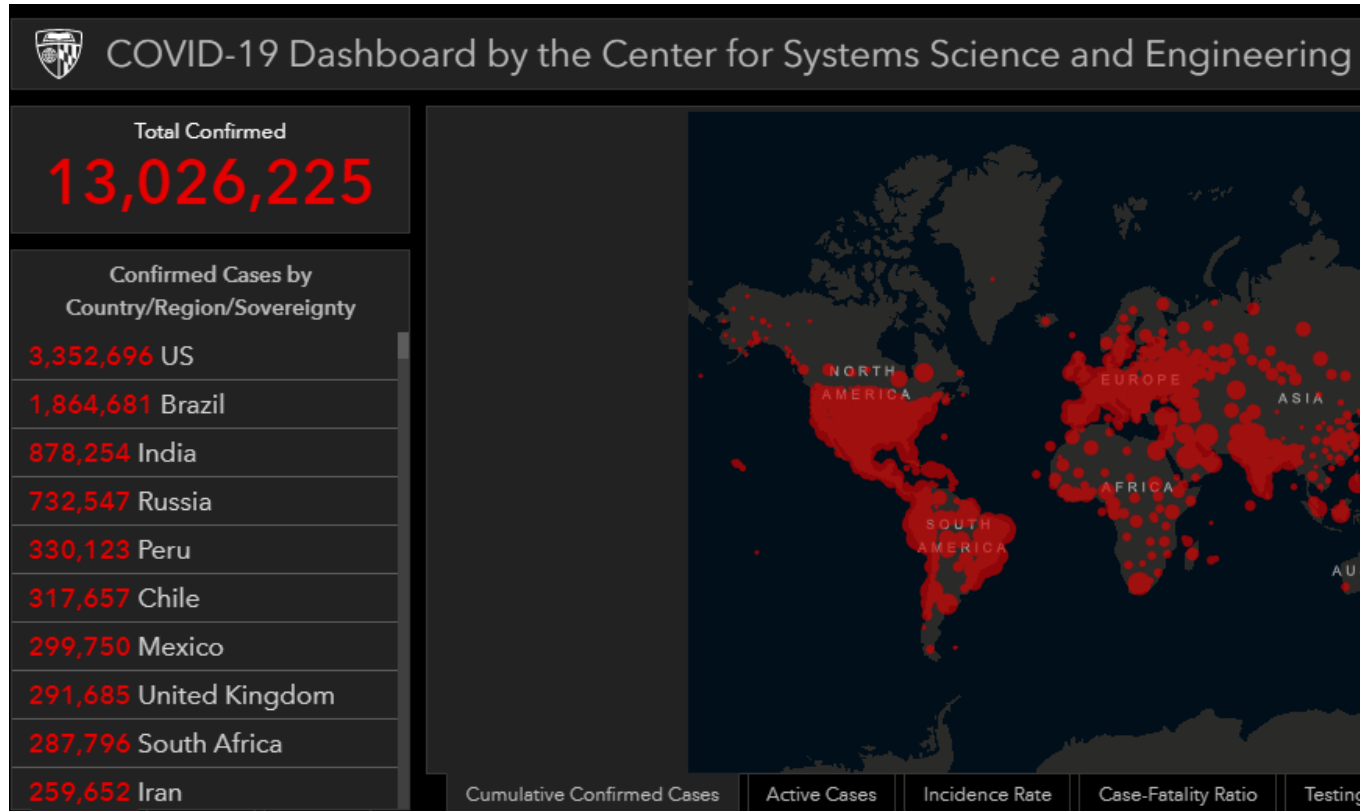
**Highest Jan-May Job Cuts since CG&C began tracking in 1993**



Gran Torino Squire in Pastel Yellow (Code 6D).

Ford LTD Country Squire in Tan Glow (Code 5U) with Tan vinyl roof.

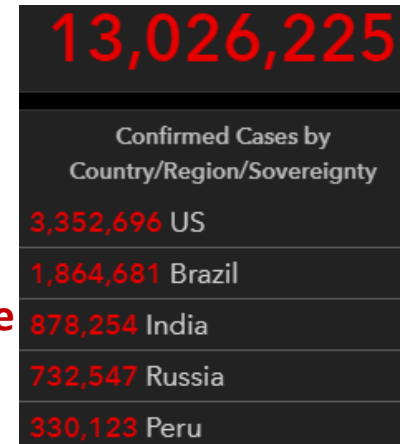
# COVID19 Cases Update as States Re-Open & Summer Begins says **"Not There!"**



## COVID19 Perspective for **"Are we there yet?"**

- # Cases: July 13<sup>th</sup> = 13 million (up >3.0m cases in 2 weeks) and 13X the <900k April 1<sup>st</sup> global tally.

US Share: Most in the World at 3.3m or 25%



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

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

## State Rankings:

### States with lowest cases

1,073 confirmed	Wyoming US
1,251 confirmed	Vermont US
1,249 confirmed	Montana US
1,162 confirmed	Alaska US
1,030 confirmed	Hawaii US

#1

#4

#5

#7

402,263 confirmed	New York US
327,735 confirmed	California US
282,435 confirmed	Florida US
267,499 confirmed	Texas US
175,522 confirmed	New Jersey US
155,925 confirmed	Illinois US
123,824 confirmed	Arizona US
120,540 confirmed	Georgia US
111,827 confirmed	Massachusetts US
100,330 confirmed	Pennsylvania US
87,669 confirmed	North Carolina US
79,827 confirmed	Louisiana US
77,198 confirmed	Michigan US
73,527 confirmed	Maryland US

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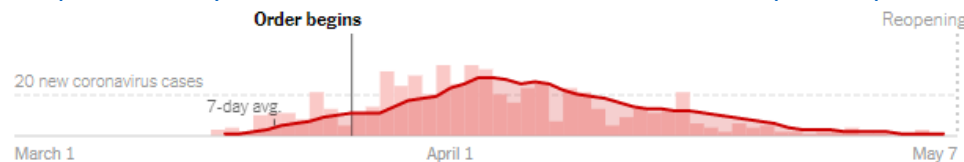
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#11

## Hawaii

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

<https://www.nytimes.com/interactive/2020/us/states-reopen-map-coronavirus.html>



**Stay-at-home order in effect since March 25 and set to expire May 31.**

Gov. David Ige, a Democrat, extended the state's stay-at-home order through May 31 but allowed some businesses, including retail stores and repair shops in certain parts of the state, to begin reopening May 7.

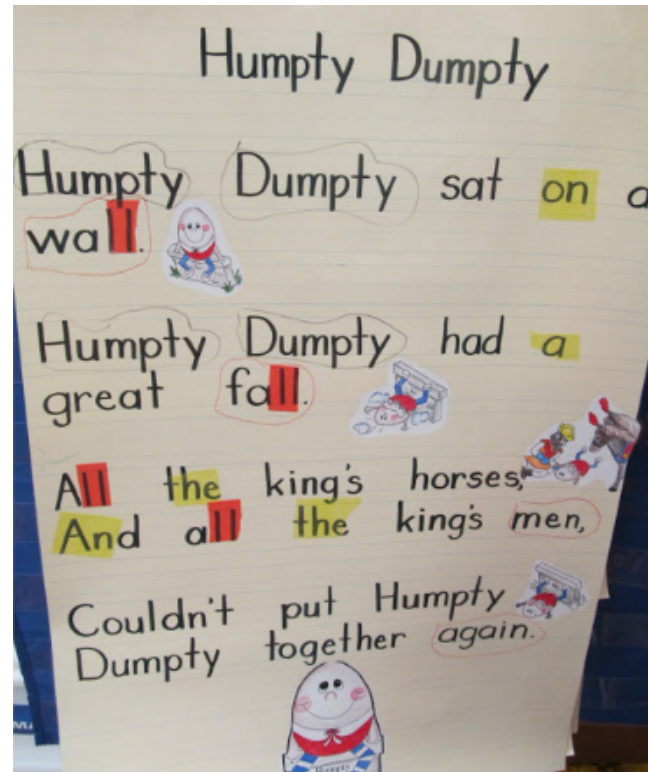
# May & June Jobs Report says: “We are there,” right?

## 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 Apr 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**



**CORONAVIRUS [COVID-19]**  
— insights & impact —  
**Record Job Losses Highlight  
Pandemic's Economic Toll**

**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.

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

**2<sup>nd</sup>:** 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.**

**3<sup>rd</sup>:** **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.

<http://www.acre.culverhouse.ua.edu/explore/stories/record-job-losses-highlight-pandemics-economic-toll>

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

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



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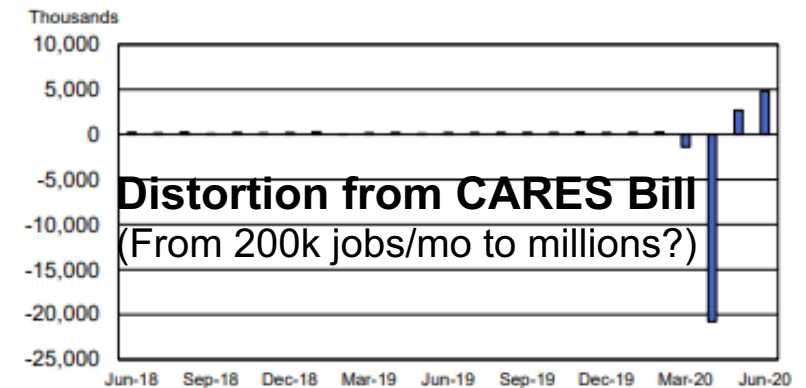
June BLS Jobs report at +4.8 mm jobs. The U-3 Unempl. rate down to 11.1% from 12.4%, The U6 rate down to 18% from 21%. And that news drew characterizations like "The jobs number have lost meaning" (Mark Zandi due to BLS

"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).

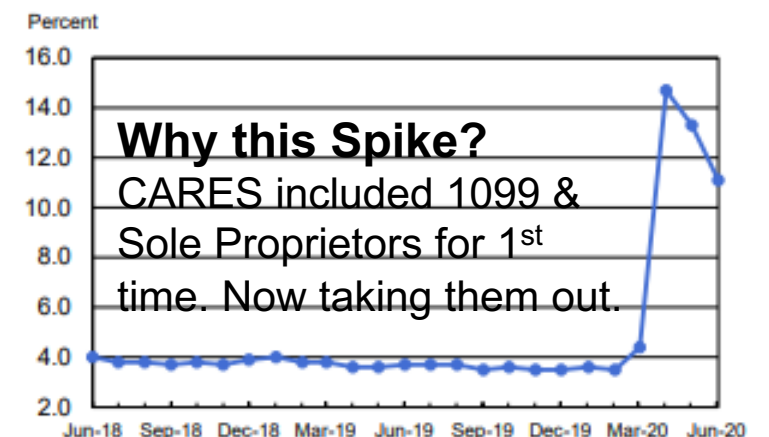
So why are so many economists dismissive of the June BLS report? 1st, there is a lack of confidence in BLS ability to count ("Misclassifications"). 2nd, business re-closings are expected from COVID cases rising which will slow these numbers. 3rd, weekly jobless claims are still running 1.5mm (1.43mm 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.

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



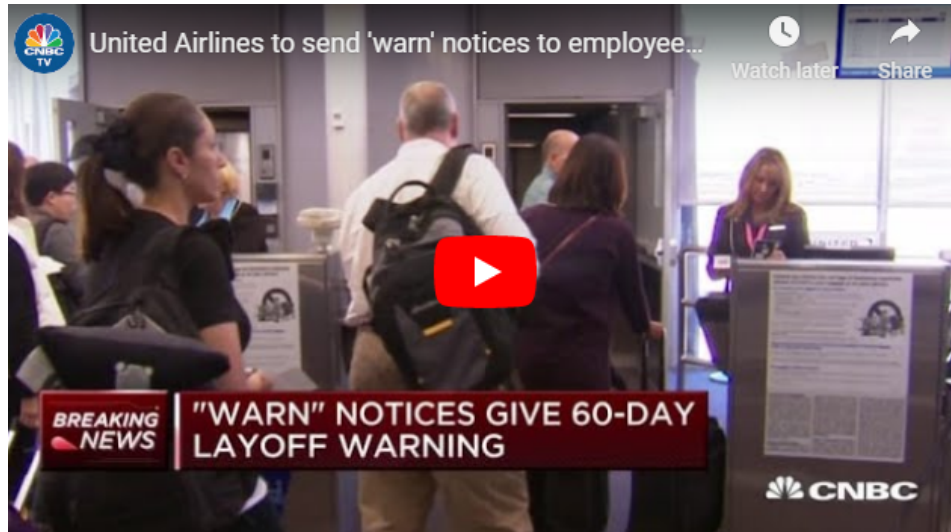
<https://www.bls.gov/news.release/pdf/empsit.pdf>

Chart 1. Unemployment rate, seasonally adjusted, June 2018 – June 2020




# Job Cuts & June Headlines that Suggest “Not There” on Jobs

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

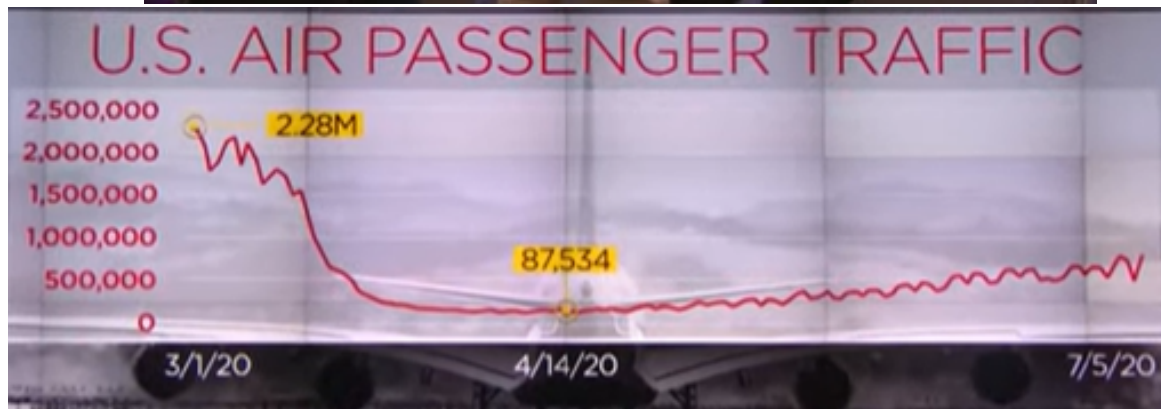



## 397,016 Announced Cuts in May; Nearly 1M Due to COVID This Year



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  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,

<http://www.challengergray.com/press/press-releases/may-2020-job-cuts-report-employers-announce-397016-job-cuts-may-nearly-1m-cuts>

# Delta's Grim Outlook

## Delta Reports Massive \$7 Billion Loss in Second Quarter ...

[airlinegeeks.com/2020/07/14/delta-reports...](https://airlinegeeks.com/2020/07/14/delta-reports...)

Jul 14, 2020 · **Delta** Reports Massive \$7 Billion Loss in Second Quarter. **Delta Air Lines** this morning became the first U.S. **airline** to report second-quarter **earnings**. After a full three months full of depressed traffic and drastic cost-cutting measures coming on the heels of huge industry fallout stemming from the COVID-19 pandemic, the **airline** reported a loss of \$7 billion on revenue of only \$1.5 billion.

Delta was the first of the major carriers to report results for the second quarter and **the numbers were even uglier than expected**.

The company lost \$2.8 billion on an adjusted basis in the period and burned through an average of **\$27 million of cash per day** in the month of June.

Delta CEO Bastian expressed optimism that the carrier could avoid more aggressive layoffs this fall **after at least 15,000 workers signed up for early retirement** packages, **Delta's rivals have warned of drastic job cuts** without a more meaningful uptick in flying.



Southwest Airlines CEO: Passenger traffic must triple by end of year to avoid layoffs, furloughs

Chicago Tribune · 20 hours ago

Southwest Airlines CEO Gary Kelly has urged employees to consider early retirement and long-term...

## Southwest Airlines to cut employees unless bookings 'triple'

[nypost.com/2020/07/13/southwest-airlines-to-cut...](https://nypost.com/2020/07/13/southwest-airlines-to-cut...)

Jul 13, 2020 · **Southwest Airlines** CEO claims it's safe to fly despite **pandemic** **Southwest Airlines** CEO Gary Kelly told employees on Monday it needs a dramatic jump in **passenger** demand or it will be forced to take...



**Of all the U.S. airlines, Southwest will do best because we will return to domestic travel first!**

<https://www.bloomberg.com/opinion/articles/2020-07-14/delta-air-lines-grim-earnings-news-offers-encouragement-too>

# NCAA Economics: The 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:

CHART 2: OVERALL CMBS SPECIAL SERVICING RATE BY PROPERTYTYPE

	MAY-20	APR-20	MAR-20	3 MO.	6 MO.	1 YR.
Industrial	1.33%	1.56%	1.59%	1.61%	2.40%	2.54%
Lodging	16.21%	11.42%	2.27%	2.04%	2.07%	2.16%
Multifamily	1.89%	2.02%	2.03%	2.14%	2.50%	2.58%
Office	2.42%	2.37%	2.45%	2.37%	2.71%	3.71%
Retail	9.31%	6.09%	5.31%	4.96%	5.36%	5.52%

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](#))

Date	Total Traveler Throughput	Total Traveler Throughput (1 Year Ago - Same Weekday)
7/6/2020	755,555	2,748,718
7/5/2020	732,123	2,795,369
7/4/2020	466,669	2,345,846
7/3/2020	718,988	2,184,253
7/2/2020	764,761	2,088,760
7/1/2020	626,516	2,547,889
6/30/2020	500,054	2,347,767
6/29/2020	625,235	2,455,536
6/28/2020	633,810	2,632,030
6/27/2020	546,310	2,368,846
6/26/2020	632,984	2,730,515
6/25/2020	623,624	2,711,222

# LTSS – Trepp's Loans Transferred to Special Servicing

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

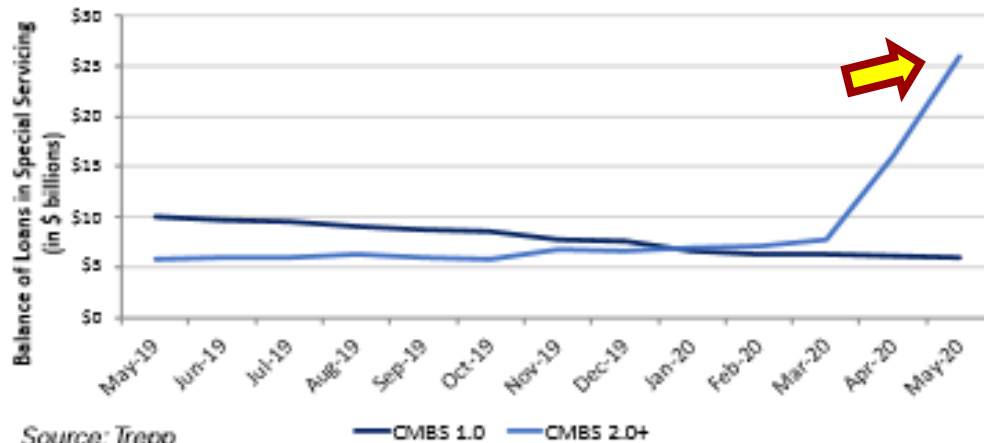


CHART 2: DELINQUENCY RATE BY PROPERTYTYPE (% 30 DAYS +)

	JUN-20	MAY-20	APR-20	3 MO.	6 MO.	12 MO.
Industrial	1.57	1.82	1.36	1.35	1.57	1.94
Lodging	24.30	19.13	2.71	1.53	1.48	2.41
Multifamily	3.29	3.25	1.92	1.63	2.02	2.11
Office	2.66	2.40	1.92	1.86	1.87	3.02
Retail	18.07	10.14	3.67	3.89	3.76	4.44

Source: Trepp

CHART 2: OVERALL CMBS SPECIAL SERVICING RATE BY PROPERTYTYPE

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Industrial	1.33%	1.56%	1.59%	1.61%	2.40%	2.54%
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Multifamily	1.89%	2.02%	2.03%	2.14%	2.50%	2.58%
Office	2.42%	2.37%	2.45%	2.37%	2.71%	3.71%
Retail	9.31%	6.09%	5.31%	4.96%	5.36%	5.52%

Source: Trepp

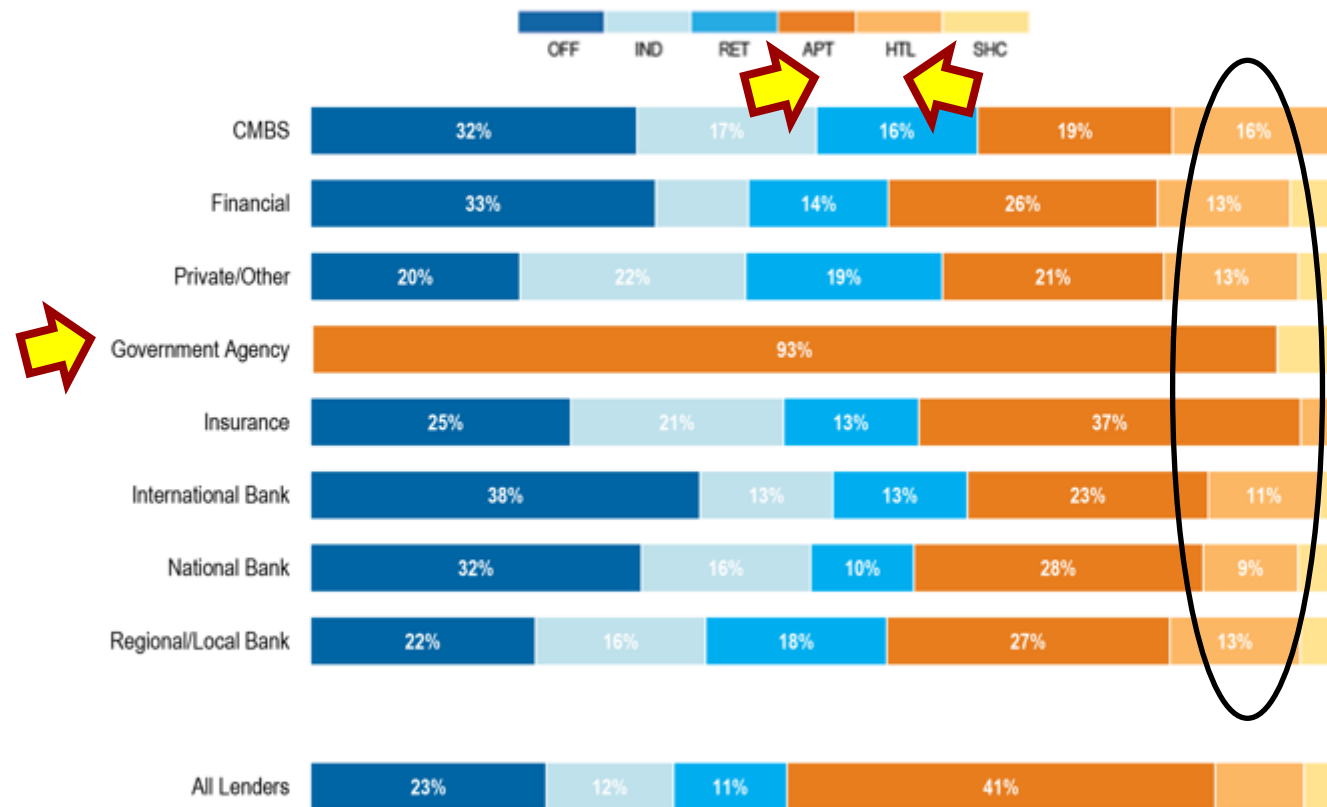
CMBS DQT and LTSS are a great proxy for what you are likely to experience in bank CRE.

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

# 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



**CRE Transaction Activity:** Lastly, one of the four key metrics that I follow to gauge the state of the COVID19 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 24<sup>th</sup>, [RCA](#) (Ral 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."

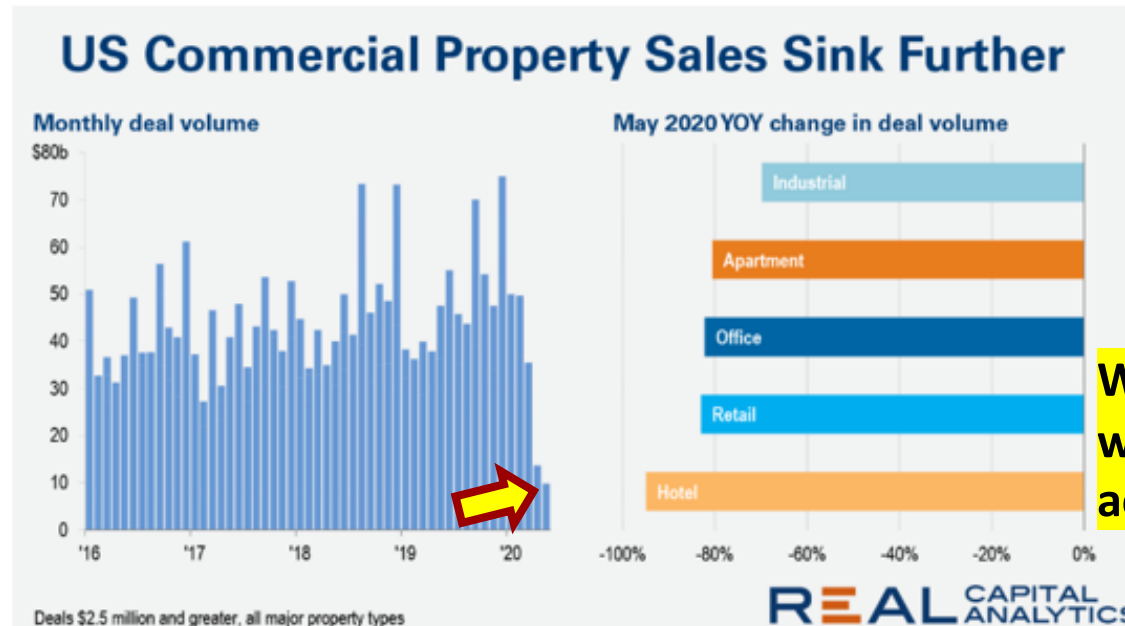


## Commercial Real Estate Sales Fall 24% to \$39.1 Billion

<https://www.costar.com/article/842666230/commercial-real-estate-sales-fall-24-to-391-billion>

By **Mark Heschmeyer**  
CoStar News

June 25, 2020 | 6:59 P.M.



What is the "Market Value" for CRE when there is limited (or no) transaction activity – as in case of hotels?

# NAIOP gave us some Hope for “We Are Getting Better” in CRE



KC Conway, MAI, CRE, CCIM

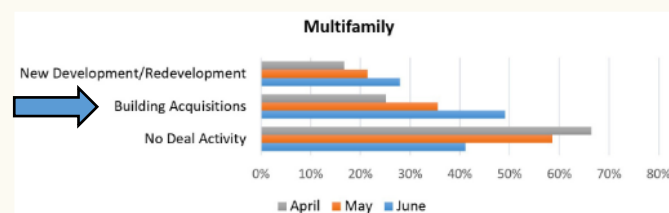
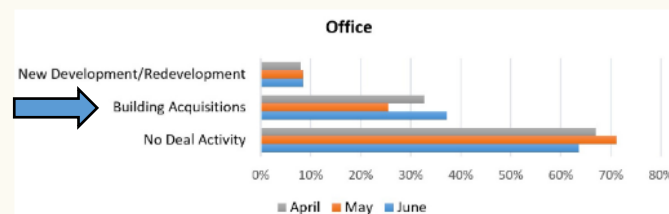
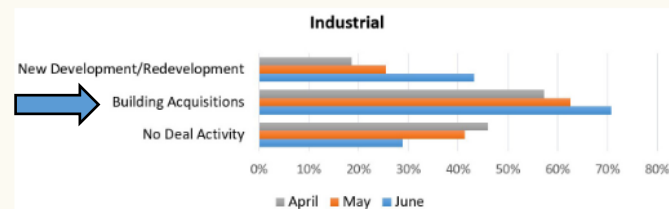
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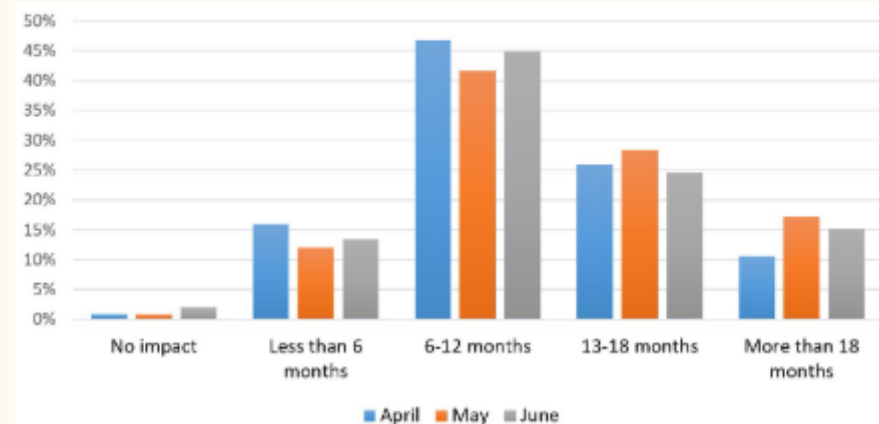
...

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.

What types of commercial real estate acquisitions or new development have you witnessed occurring in the last three weeks in the markets in which you are active?\*

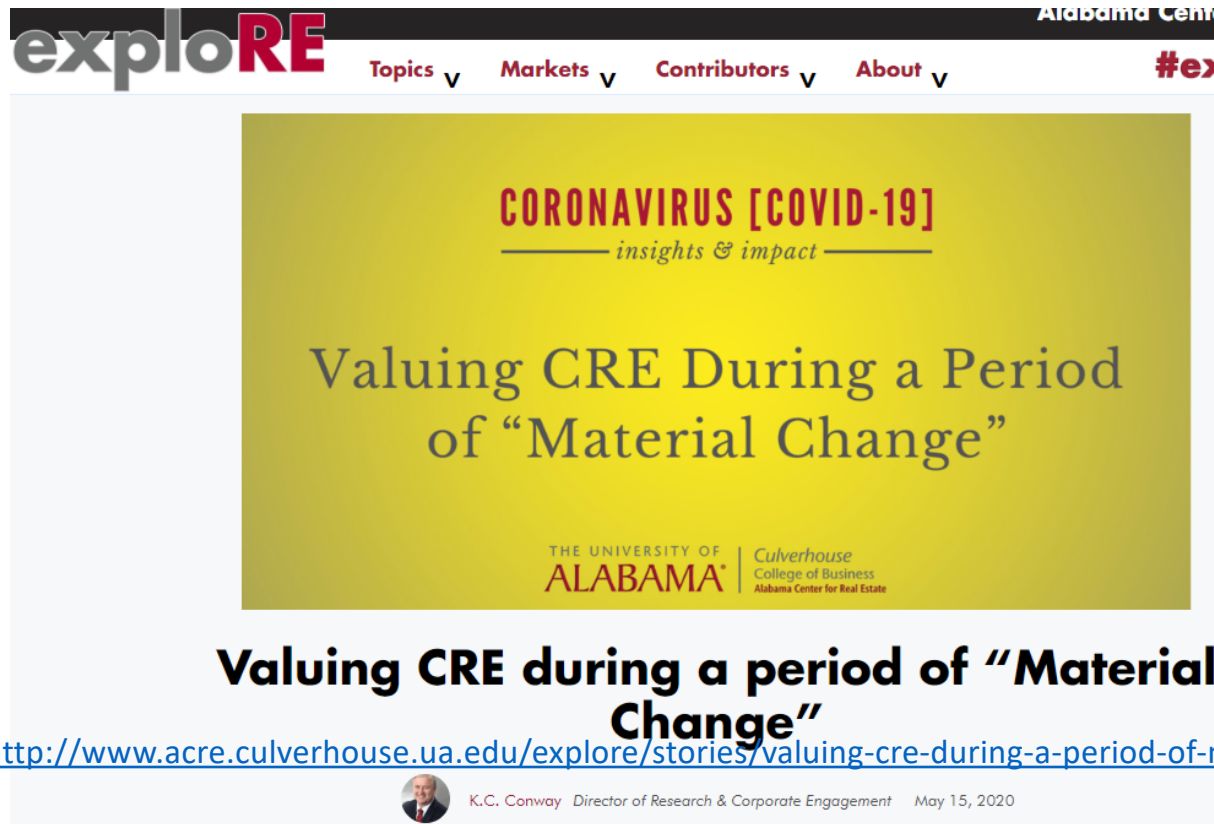


How long do you expect the events associated with the coronavirus outbreak to significantly impact your business operations?



<http://blog.naiop.org/2020/06/naiop-june-coronavirus-impacts-survey-results-show-improving-conditions-for-commercial-real-estate/>

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



- **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 a **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](#).

## Corp. Earnings: Q1 was very Insightful, but Q2 will test the Stock Market Highs



### Leveraging Corporate Earnings Reports for CRE Analysis



**K.C. Conway, MAI, CRE**  
Chief Economist, CCIM Institute  
Director of Research,  
Alabama Center for Real Estate



**MODERATOR**  
**Eddie D. Blanton, CCIM**  
2020 President, CCIM Institute



Available here, along with the slides: <https://ccim.com/covid-19#corpEarnings>

<https://www.youtube.com/watch?v=jW5OUI0-llo&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.



Our **first full calendar year quarter impacted by the coronavirus** just concluded on June 30, 2020. Now the real test of the record stock market highs, along with the May and June 2020 Jobs reports, are going to get a [Look-Under-the-Hood](#) via Q2 corporate earnings.

A Fourth of July [Bloomberg](#) feature titled **"A \$10 Trillion Rally Hinges on Earnings Nobody Has a Clue About"**  best characterizes the confusion and anxiety in advance of the onset of Q2 Earnings-Season starting next week. **Why the confusion and anxiety?**

**First**, 400 companies in the S&P 500 index (80%) opted not to provide any forward guidance in their Q1 earnings leaving the market largely in the dark as what to anticipate from Q2.

**Second**, the major stock indices – especially the NASDAQ – concluded Q2 at **record levels with stock price to earnings multiples that are more speculative than rooted in actual earnings**. According to [FactSet.com](#), the current S&P 500 is trading at approximately **23 times the full CY 2020 year earnings forecast of \$128 per share, compared with the \$178 EPS** expectation at the beginning of 2020.

## Preparing for Q2 Earnings Season

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

**Third**, for every one positive economic report, such as the record +4.8 million jobs in the June [BLS Employment Situation](#) report from July 3, 2020, **there are two that run contrary**, such as the [Challenger-Gray Job Cuts](#) report (1.2 million cuts in Q2 and highest quarter of cuts on record), or the [Trepp](#) CMBS Delinquency (10.32% in June 2020 just shy of the July 2012 10.34% record) and Loans-Transferred-to-Special-Servicing reports (worst for hotel CRE at over 16%). **"Nobody is wrong, and everyone is right"** seems to characterize the business headlines and stock market behavior.

**This situation appears a bit déjà vu to me from 2005-2010. At first, subprime was not a real problem, and commercial real estate and the broader economy would not be impacted by a few excess houses.** Then there was a liquidity crisis; CMBS activity came to a halt; 500+ banks failed; CRE prices decline more than 40%; and we had the Great Recession. This public health crisis, although a more rapidly unfolding event than the 2006-2009 Housing and Subprime Mortgage Crisis

### Explore the Disconnects from Five Perspectives that will impact CRE:

A lot has transpired, and the economic data is not clear or consistent. I recommend **focus on five areas to "kick the tires" of any coronavirus recovery.** These five areas are your best preparation for Q2 earnings and extrapolating the impact on CRE conditions, and include: i) **COVID19 Cases**; ii) **Transportation Metrics**; iii) **Transaction Activity**; iv) **Credit Metrics**; and v) **Economic and Fiscal Intervention.**



# TX & Houston Economies and CRE Conditions



**Remember when recovery from a hurricane was your primary challenge?**

## Monthly Economic Indicators

MONTHLY ECONOMIC INDICATORS	PRIOR AVAILABLE DATA	CURRENT AVAILABLE DATA	MONTH-OVER-MONTH CHANGE	YEAR-OVER-YEAR CHANGE
<b>INTEREST RATES</b>		June 2020	July 2020	
10-year Treasury Rate	0.66	0.68	3.0%	-1.27%
LIBOR (1 month)	0.18	0.17	-5.6%	-2.2%
<b>EMPLOYMENT</b>		April 2020	May 2020	
U.S.	130,317,000	133,410,000 (P)	2.4%	-11.7%
Texas	11,6008,400	11,879,300 (P)	2.3%	-7.1%
Houston MSA	2,853,700	2,927,500 (P)	2.6%	-8.6%
<b>UNEMPLOYMENT</b>		April 2020	May 2020	
U.S.	14.7%	13.3%	-9.5%	269.4%
Texas	13.1%	12.7% (P)	-3.1%	309.7%
Houston	14.3%	13.9% (P)	-2.8%	160.0%

- Houston's employment fell by 8.6% over the year
- The Houston MSA lost 228,100 jobs, Texas lost 908,800 jobs and the U.S. lost 17,699,000 jobs (not seasonally adjusted) between May 2019 and May 2020.

P: Preliminary

### Sectors with the largest annual decline: May

- Arts, Entertainment, Recreation - 45.2%
- Clothing & Accessories Stores -43.6%
- Leisure and Hospitality -25.7%
- Mining and Logging -25.4%



# THE ECONOMY AT A GLANCE

## HOUSTON



*The U.S. is officially in a recession.*

The [National Bureau of Economic Research](#) (NBER) has formally declared the U.S. entered a recession in February. NBER is the organization authorized by the U.S. Congress to date U.S. business cycles.

### RECENT U.S. RECESSIONS

Start	End	Duration
February '80	July '80	6 months
August '81	November '82	16 months
August '90	March '91	8 months
April '01	November '01	8 months
January '08	June '09	18 months
February '20	TBD	TBD

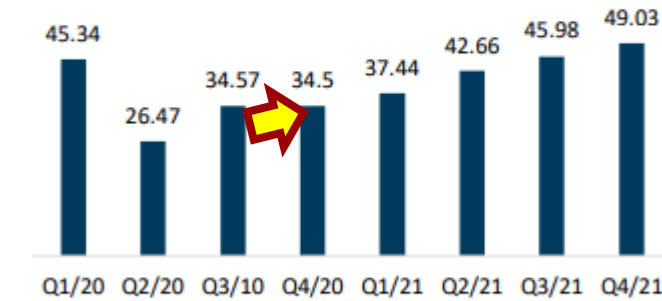
Source: National Bureau of Economic Research

Conventional thinking holds that the U.S. is in recession when the economy suffers two consecutive quarters of shrinking gross domestic product (GDP). NBER, however,

## Energy

profitably drill a new well. The U.S. Energy Information Administration (EIA) forecasts [WTI to remain below \\$40 per barrel through Q1/21](#) and not reach \$50 per barrel until late in Q4/21.

### WTI Price Forecast, \$/Barrel



Source: U.S. Energy Information Administration

*OPEC and its allies have substantially complied with production cuts.*

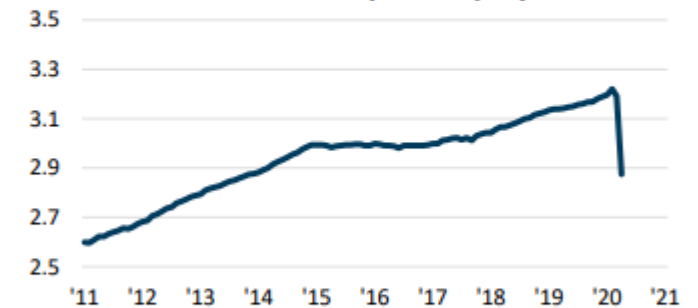
### POPULATION TRENDS

Houston reached a milestone last year. The nine-county metro area topped 7.0 million residents, according to data released this spring by the [U.S. Census Bureau](#). The announcement went largely unnoticed because the nation's attention was focused on the COVID-19 pandemic. Houston maintained a solid grip on its rank as the nation's fifth most populous metro, behind Dallas-Fort Worth and ahead of Washington, DC.

### HOUSTON EMPLOYMENT UPDATE

The nine-county Metro Houston area has lost 330,100 jobs since the economy shut down due to the COVID-19 pandemic, according to Partnership calculations based on [Texas Workforce Commission](#) (TWC) data. Payroll employment has fallen to 2,873,800, about where it stood in October '13.

### Metro Houston Payroll Employment



Source: Texas Workforce Commission

Losses have occurred across all sectors of the economy, with restaurants and bars, health care and social assistance, and construction suffering the most. Only a handful of sectors—general merchandise stores, hardware stores, computer systems design—have added jobs.

## Houston Business Barometer Week 14: Companies' Short-Term Outlook Dims

7/9/20

The short-term outlook among local companies has worsened in recent weeks as the number of COVID-19 cases has increased, and reopening efforts have been put on pause. Nearly 30% of companies...

Asked about the impact of reopening efforts that began on **May 1st, 7.6% of companies responding to the Partnership survey say they have reopened completely** while another 38% say they have partially reopened. Nearly 10% say they have not reopened and nearly 45% report that they did not close.

**About 67% of companies say they never furloughed or laid off employees while just 1% say they have recalled all employees** that had been laid off or furloughed. About 32% say they have recalled all or some of their furloughed or laid employees.

**About 54% of companies surveyed say they have received Paycheck Protection** Program aid while another 10% of companies say they received an Economic Injury Disaster Loan. Two percent of respondents say they applied for federal aid but have yet to receive an answer.

As cases have risen, a growing number of companies are not bringing employees back to the workplace. **Only 6% of companies have recalled all of their employees since May 1. Forty-four percent have recalled some employees and 46% have not recalled any of their employees.**

**Asked when they expect to resume normal operations, nearly half of respondents say they expect it will take three months or longer, up from 28% a month ago.**

# TX & Houston: Energy & Housing Conditions



## Monthly Economic Indicators

MONTHLY ECONOMIC INDICATORS	PRIOR AVAILABLE DATA	CURRENT AVAILABLE DATA	MONTH-OVER-MONTH CHANGE	YEAR-OVER-YEAR CHANGE
<b>GDP</b>	Q4 2019	Q1 2020		
U.S.	2.1%	-4.8%	Forecast Q2 2020 -52.8% (Atl Fed)	
<b>ENERGY</b>	June 2020	July 2020		
U.S. Active Rotary Rigs	284	263	-7.4%	-72.7%
WTI Spot Crude Oil (\$/bbl)	\$35.49	\$39.67	11.9%	-32.7%
Henry Hub Natural Gas (\$MMBtu)	\$1.59	\$1.67	5.0%	-28.3%
<b>BUILDING PERMITS (\$) (CITY OF HOUSTON)</b>	March 2020	April 2020		
Residential	389.9 million	200.4 million	-48.6%	-36.0%
YTD	854.5 million	1,054.9 million	23.5%	6.1%
Nonresidential	283.1 million	264.2 million	-6.7%	-63.6%
YTD	1,003.2 billion	1267.4 billion	26.3%	-24.4%

GHP Monthly Economy at a Glance is in the Broker Handbook:

S:\Broker Handbook\Research - Market Reports\EDC Info and Publications\Greater Houston Partnership



# TX & Houston: Industrial Market



Summary Statistics			
Houston Industrial Market	Q2 2019	Q1 2020	Q2 2020
→ Vacancy Rate	6.2%	7.7%	8.1% ←
→ Net Absorption (SF)	2.8M	3.5M	2.3M ←
Deliveries (SF)	5.0M	9.8M	4.9M
Under Construction (SF)	13.1M	17.8M	14.8M
→ Asking Rents			
Per Square Foot Per Year (NNN)			
Average	\$7.69	\$7.83	\$8.12 ←
Warehouse/Distribution	\$6.90	\$7.17	\$7.32
Flex/Service	\$8.64	\$9.78	\$10.29
Tech/R&D	\$11.58	11.01	\$13.70
Big Box	\$5.06	\$5.47	\$6.05

# 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.

Average US apartment cap rate in Feb'20

Range of Apartment Cap Rates

Percent Change in NOI		5.5	5.7	5.9	6.1	6.3	6.5	6.7	6.9	7.1
0%	0%	0%	-4%	-7%	-10%	-13%	-16%	-18%	-21%	-23%
-2%	-2%	-2%	-6%	-9%	-12%	-15%	-17%	-20%	-22%	-24%
-4%	-4%	-4%	-8%	-11%	-14%	-16%	-19%	-21%	-24%	-26%
-6%	-6%	-6%	-10%	-13%	-16%	-18%	-21%	-23%	-25%	-27%
-8%	-8%	-8%	-12%	-15%	-17%	-20%	-22%	-25%	-27%	-29%
-10%	-10%	-10%	-13%	-16%	-19%	-22%	-24%	-26%	-29%	-31%
-12%	-12%	-12%	-15%	-18%	-21%	-23%	-26%	-28%	-30%	-32%
-14%	-14%	-14%	-17%	-20%	-23%	-25%	-27%	-30%	-32%	-34%
-16%	-16%	-16%	-19%	-22%	-25%	-27%	-29%	-31%	-33%	-35%
-18%	-18%	-18%	-21%	-24%	-26%	-29%	-31%	-33%	-35%	-37%
-20%	-20%	-20%	-23%	-26%	-28%	-30%	-33%	-35%	-36%	-38%
-22%	-22%	-22%	-25%	-28%	-30%	-32%	-34%	-36%	-38%	-40%

2008-2012  
CRE decline

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 even with no Cap Rate Change = Value Decline**



**Workforce MF  
Vs.  
Student Housing MF**

**Urban MF  
Vs.  
Return to the Suburbs**

Who says Suburbs vs Urban?  
DR Horton earnings.

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...

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

June 17, 2020

by *UrbanTurf Staff*



Like 6 people like this. Sign Up to see what your friends like.

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.

<https://dc.urbanturf.com/articles/blog/fhfa-extends-eviction-and-foreclosure-moratorium-through-the-summer/16971>

- **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.**

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

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



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>

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 2019, 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.

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](#).

# 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 [ISA](#)) 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 2.83% 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 an 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 clues 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%**

# Hotel CRE



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

## The Other L&T Industry Impacted by COVID-19 May 27, 2020

- **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 AHHA'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

?

**Do these new Gov. Imposed  
Occupancy Restrictions  
represent a type of  
Emanant Domain  
without compensation  
and permanent  
value diminution?**



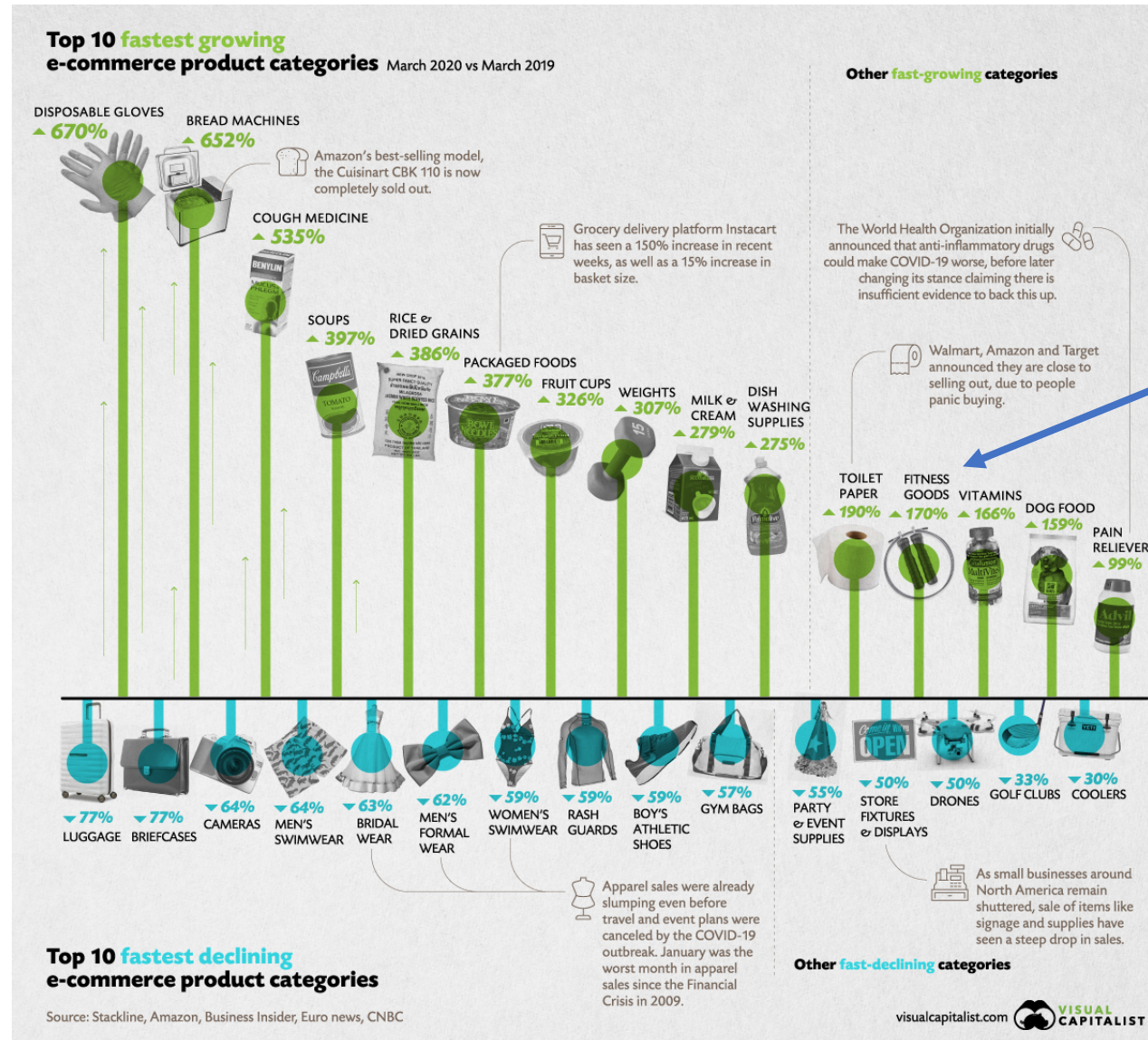
# Retail e-Volution? Does what we buy or not buy in COVID19 continue post COVID19?

## 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>

<https://www.visualcapitalist.com/shoppers-buying-online-e-commerce-covid-19/>



## Reflect on Weight Watchers (WW) Earnings & Shopify

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

May 7, 2020 6:46 PM ET | 58 comments | 17 Likes | About: Shopify Inc. (SHOP)

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).



KC Conway, MAI, CRE, CCIM

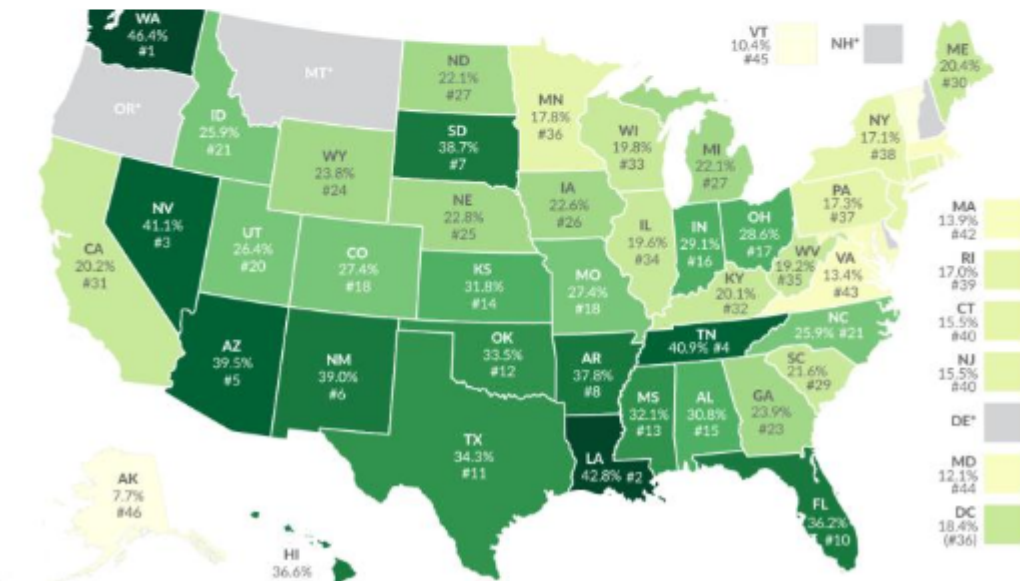
ACRE - Alabama Center for Real Estate / CCIM Chief Economist / kcmaicre@gm...

8h • Edited •

What the politicians don't get about retail and their state budgets when they extend occupancy restrictions. Retail sales taxes pay a big portion of state and local budgets. Get ready for an increase in Chapter 9 Bankruptcies by municipalities. It's already started with the first Covid19 municipal BK in a bedroom community of Birmingham AL.

Retail businesses don't just employ a lot of people, they pay a large portion of the state and local taxes that pay for services, municipal bonds, and infrastructure. And the CARES Bill only extended support to cities with at least 500,000 population. That is just 36 of our 360+ MSAs.

#cre #ccimglobal #ccim #colliersinternational #cbre #jll #nkv #uli #irem #nar #realtors #irem #fdic #commercialrealestate #statetax #icsc



To What Extent Does Your State Rely on Sales Taxes?

# To What Extent Does Your State Rely on Sales Taxes?

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.

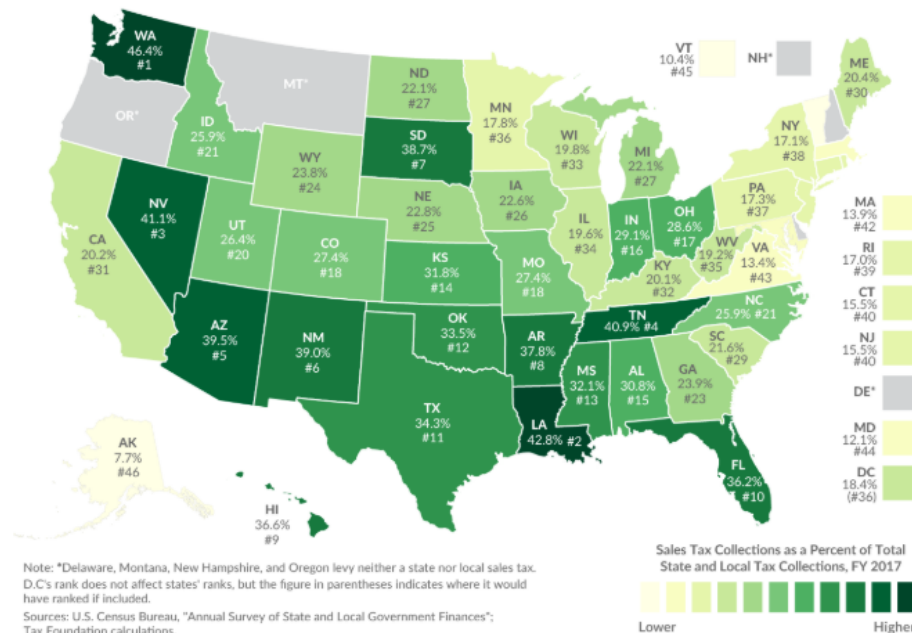
#2 - Louisiana is the second-most reliant with 42.8 percent

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

#4 - Tennessee, does not tax wage income, is 4th with 40.9 percent.

## How Much Does Your State Rely on Sales Taxes?

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



<https://taxfoundation.org/state-sales-tax-reliance-2020/>



<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.

## Logistics & Industrial CRE Logistics 2.0

**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.**

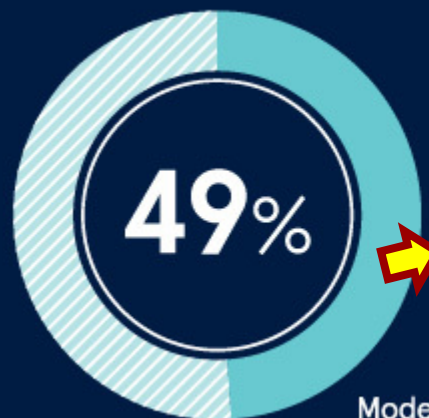
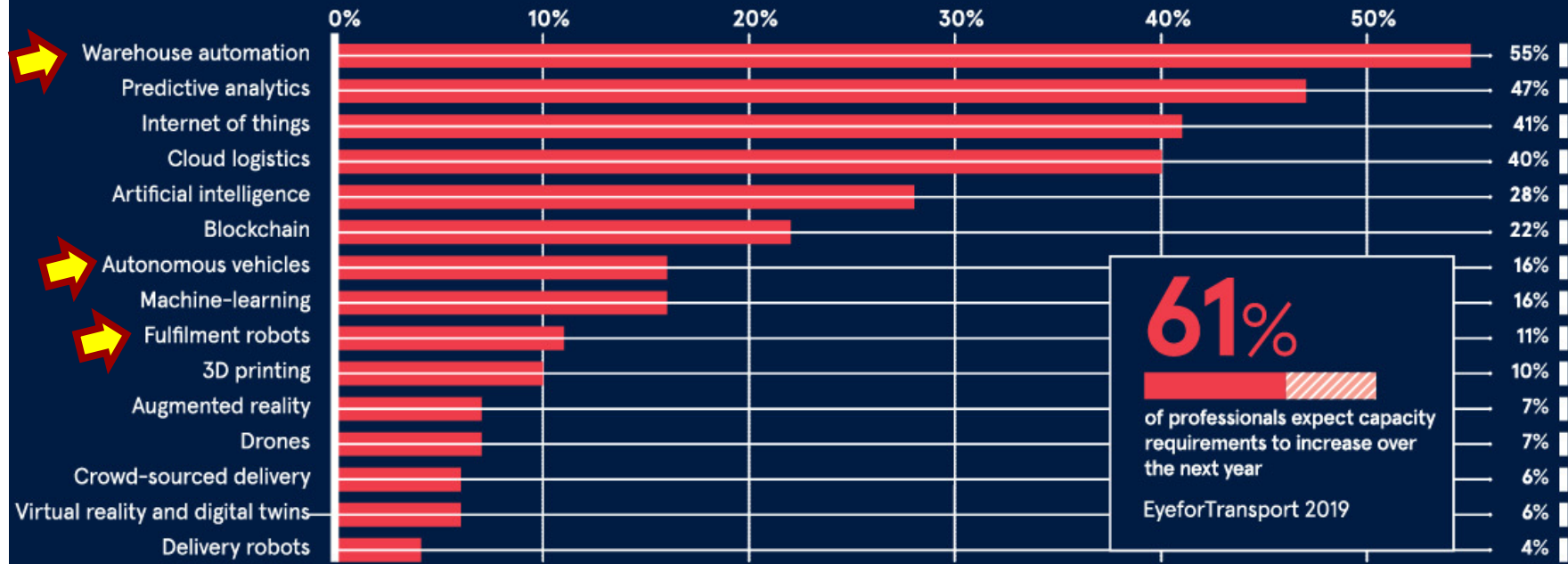


<https://www-forbes-com.cdn.ampproject.org/c/s/www.forbes.com/sites/kenroberts/2020/04/07/port-laredo-again-no-1-as-coronavirus-sends-port-of-los-angeles-reeling/amp/>

## FUTURE TECHNOLOGIES

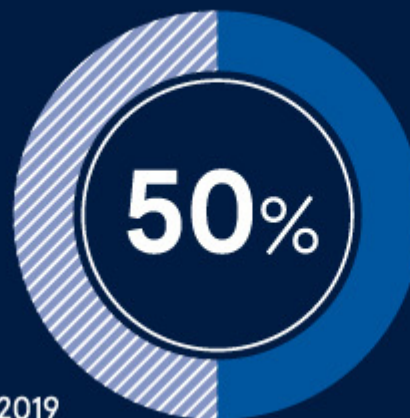
Percentage of retail, manufacturing and logistics professionals who are currently investing in the following

EyeforTransport 2019



of warehouse and distribution centre managers say they still use mostly manual processes in order fulfilment

Modern Materials Handling 2019



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

Gartner 2019



of operational warehouse workers will be supplemented, not replaced, by collaborative robots by 2023

Gartner 2019



# Wild Swings in Freight Rates the New Normal Amid Uneven Recovery

July 4, 2020 by Bloomberg



KC Conway, MAI, CRE, CCIM

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

1d • Edited •

...

Monitor those transportation metrics to gauge Covid19 recovery - a Red-Shoe Economist reminder. Aside from TSA Passenger Count, look at the pace of "unblanking blank sailings" between a key container shipping route Shanghai to LA. In June, rates rose 47%.

Note the following from this gCaptain feature:

"On the key Shanghai to Los Angeles route prices spiked by 47% in June as China's rapid economic recovery from the outbreak took the shippers by surprise. The companies over-estimated the amount of blank sailings — when vessels have container slots that aren't filled."

"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,

<https://gcaptain.com/wild-swings-in-freight-rates-the-new-normal-amid-uneven-recovery/>

# 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



July 6, 2020

## Rail Time Indicators

*A Review of Traffic Trends & Key Economic Indicators Shaping Demand for Rail Transportation*

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

## The Big Market Distortion – Appraisers & Brokers Beware – What's the Market w/o FED?

tradingeconomics.com

TRADING  
ECONOMICS

Calendar

### 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 is Distorting Market Prices – including CRE

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## Warren Buffett doesn't need the Fed's help. But he's getting it anyway



By [Matt Egan, CNN Business](#)

Updated 4:15 PM ET, Mon June 29, 2020

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.**



# The Fed is buying some of the biggest companies' bonds, raising questions over why



<https://www.cnbc.com/2020/06/29/the-fed-is-buying-some-of-the-biggest-companies-bonds-raising-questions-over-why.html>



## Apple, AT&T, Jack Daniel's: Fed issues details on bond buys

<https://www.marketbeat.com/articles/apple-att-jack-daniels-fed-issues-details-on-bond-buys-2020-06-28/>



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22h • Edited •

The Fed is getting way out in front of its skis. Last week's Bank Stress Tests intervention in the banks - essentially nationalizing them by prohibiting payment of any Dividends regardless of their credit metrics - and now picking which 750 public companies bond debt it will buy and support versus those it won't is more scary than the run up in it's balance sheet to more than \$7.0 trillion. The Fed thinks it needs to support Apple and WalMart bond debt? Really? Anyone looked at Apple or WalMart's Q1 earnings and stock price? If the Fed is going to intervene and support anything, it should be municipal and infrastructure bond debt for cities <500k in population that did not receive any help in the CARES Bill. To have a Central Bank picking stock, bond and municipality winners and losers is beyond their 2 mandates. Will they intervene next in airline and energy stocks and bonds? Where are the boundaries and rules the Fed is using to pick the winners or losers?

- The Federal Reserve is continuing to buy corporate bonds, following up on a pledge it made in March.
- Corporate America titans such as Microsoft, Apple and Home Depot have been among the beneficiaries.
- Questions have been raised over "moral hazard" as the Fed buys debt from companies that don't seem to need the central bank's help.

...



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.**

# 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

<https://finance.yahoo.com/news/fed-purchased-1-8-billion-204012560.html>

Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks

1. Factors Affecting Reserve Balances of Depository Institutions  
Millions of dollars

Reserve Bank credit, related items, and reserve balances of depository institutions at Federal Reserve Banks

	Week ended Jun 24, 2020	Averages of daily figures	Week ended Jun 17, 2020	Week ended Jun 26, 2019	Wednesday Jun 24, 2020
Reserve Bank credit	7,009,664	-	75,503	+3,214,091	7,043,367
Securities held outright (1)	6,115,130	+	36,505	+2,462,634	6,143,193

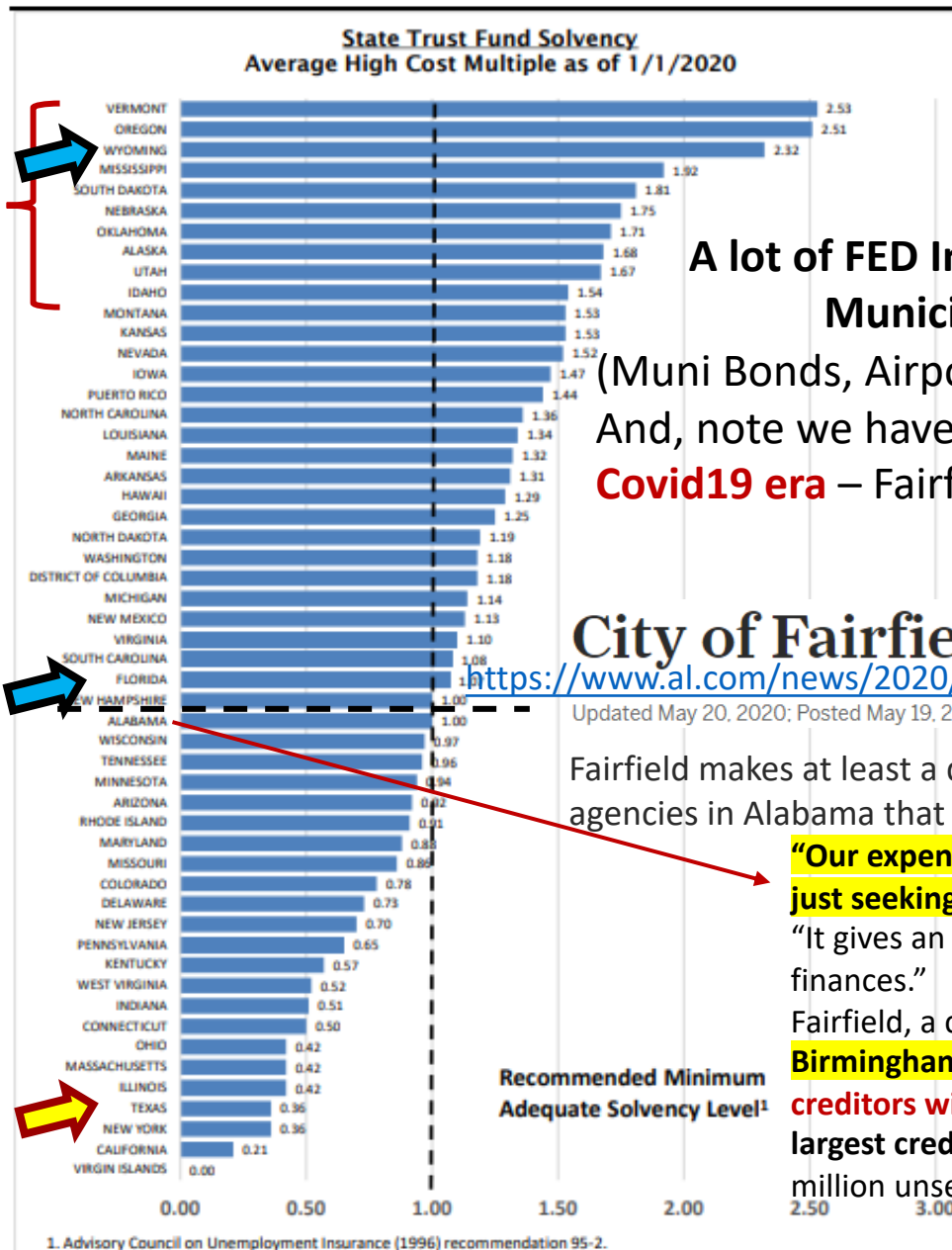
<https://www.federalreserve.gov/releases/h41/current/default.htm>

Assets, liabilities, and capital	Eliminations from consolidation	Wednesday May 20, 2020	Change since Wednesday May 13, 2020	Change since Wednesday May 22, 2019
<b>Assets</b>				
Gold certificate account		11,037	0	0
Special drawing rights certificate account		5,200	0	0
Coin		1,478	-	183
Securities, unamortized premiums and discounts, repurchase agreements, and loans		6,518,859	+ 111,040	+2,717,465
Securities held outright (1)		5,954,518	+ 111,142	+2,273,174
U.S. Treasury securities		4,089,331	+ 32,063	+1,974,762
Bills (2)		326,044	0	+ 325,994
Notes and bonds, nominal (2)		3,471,224	+ 28,608	+1,494,659
Notes and bonds, inflation-indexed (2)		255,266	+ 3,250	+ 139,905
Inflation compensation (3)		36,797	+ 205	+ 14,205
Federal agency debt securities (2)		2,347	0	0
Mortgage-backed securities (4)		1,862,841	+ 79,080	+ 298,413
Unamortized premiums on securities held outright (5)		304,104	+ 6,588	+ 171,070
Unamortized discounts on securities held outright (5)		-5,691	- 337	+ 7,343
Repurchase agreements (6)		157,351	- 3	+ 157,351
Loans (7)		108,577	- 6,350	+ 108,527
Net portfolio holdings of Commercial Paper Funding Facility II LLC (8)		4,293	+ 1	+ 4,293
Net portfolio holdings of Corporate Credit Facility LLC (8)		1,801	+ 1,496	+ 1,801
Items in process of collection	(0)	51	+ 2	- 59
Bank premises		2,206	+ 1	+ 9
Central bank liquidity swaps (9)		446,103	+ 5,169	+ 446,086
Foreign currency denominated assets (10)		20,595	+ 111	- 5
Other assets (11)		25,635	- 14,759	+ 7,417
		(0)	+ 7,037,258	+ 103,031
				+3,176,823

June 25, 2020

Fed Balance Sheet in 5 weeks:  
to \$6.1 Trillion (Gulp!)

## SUMMARY OF STATE TRUST FUND STATUS



10 Best / Most Funded  
State Unempl.  
Insurance Funding

What is the value of CRE  
in a city that has filed  
Chapter 9 Bankruptcy?

Start preparing the FIL on  
this topic.

How many of 138 College  
Towns that play NCAA  
Div 1 athletics will face  
Chapter 9?

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 **1<sup>st</sup> US City go BK in  
Covid19 era** – Fairfield AL.

City of Fairfield files for bankruptcy

<https://www.al.com/news/2020/05/city-of-fairfield-files-for-bankruptcy.html>

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.

**2021** TOP TEN ISSUES  
AFFECTING REAL ESTATE®  
The Counselors of Real Estate®

1. [COVID-19](#)
2. [Economic Renewal](#)
3. [Capital Market Risk](#)
4. [Public & Private Indebtedness](#)
5. [Affordable Housing](#)
6. [Flow of People](#)
7. [Space Utilization](#)
8. [Technology & Workflow](#)
9. [Infrastructure](#)
10. [ESG](#) Now more “S” than “E”

<http://www.acre.culverhouse.ua.edu/explore/stories/the-counselors-of-real-estate-release-2020-21-top-ten-issues-affecting-real-estate>

## The Consequences of Public and Private Debt on Real Estate

[Download a PDF of this entire article](#)

- The U.S. national debt has now risen to just more than \$26 trillion from \$23 trillion just 6 months ago, or \$210,000 per taxpayer (just shy of the median home price in the U.S.). This is a drain on savings and investment activity.
- Total state debt is approximately \$1.2 trillion, or \$3,500 per state taxpayer, and local debt is nearly double state indebtedness at \$2.1 trillion and \$6,350 per local taxpayer.
- Student loan debt is now approaching \$1.7 trillion and exceeds total credit card debt of \$1.0 trillion. This burden on what's now the largest demographic group in the workforce—Millennials—will inhibit housing investment and consumption behavior, adversely impacting retail, auto purchases, and leisure spending for travel.
- Total Personal Debt now exceeds \$20.5 trillion and is approaching the U.S. annual GDP. That equates to more than \$62,000 per citizen. Totalling personal debt, state debt, local government debt, and U.S. national debt, each U.S. citizen now owes the equivalent of the cost of a median home in the U.S. This level of debt at the onset of COVID-19—with trillions more ahead in stimulus and fiscal rescue intervention—is not sustainable. It will impact commercial real estate in many ways, from reduced demand for housing to interest rates that will eventually have to rise to attract new capital to fund our debt, to the ability to repair and upgrade our aging infrastructure and fund projects like 5G that will be essential to our future.<sup>3</sup>

Lastly, from a global view of public debt, the International Monetary Fund projects that global net public debt will rise from 69.4% of national income in 2019 to 85.3% in 2020. Global public deficits will climb 9.9%, topping levels seen in 2008-2009. •

<https://www.cre.org/real-estate-issues/the-consequences-of-public-and-private-debt-on-real-estate/>



# Recession or Depression?

## Making sense of the various Recession Shapes (V, W, U - let's hope NOT a “U” or “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.



**K.C.  
forecasts?**

### 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.

# We have Arrived at the END

*"I no longer listen to what people say,  
I just watch what they do. Behavior never lies."*

**Winston Churchill**

Forecasting the  
Economy  
&  
Assessing the impact on  
CRE values  
during COVID19  
may be messy!



But do practice Social  
Distancing!

