

Federal Reserve Bank of Atlanta 2021 Banking Outlook Conference

Unprecedented Unknowns, 2021 Commercial Real Estate

February 25, 2021

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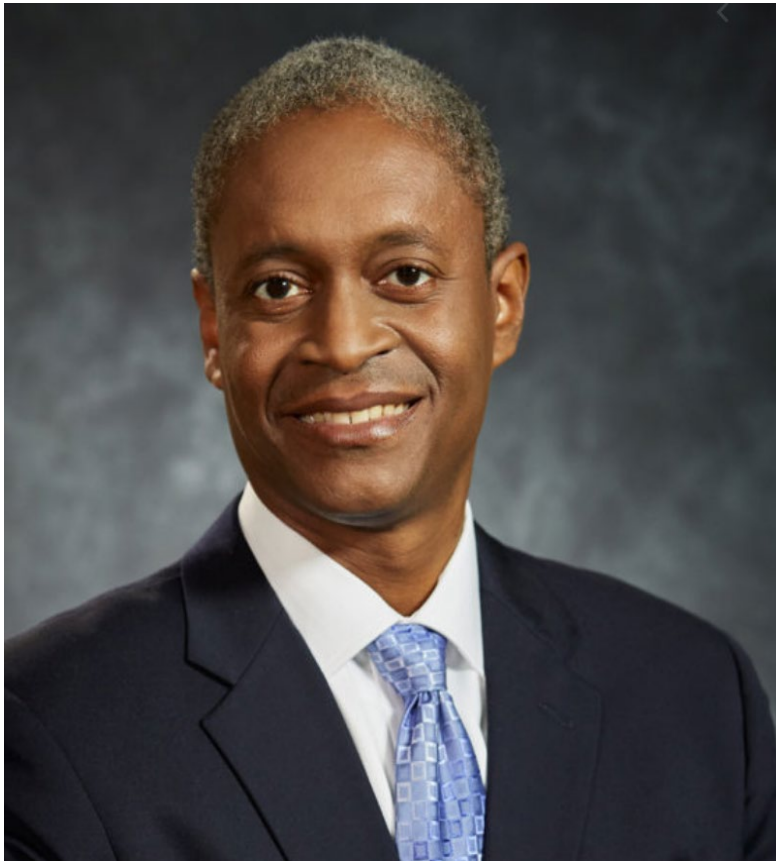


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Agenda

- Economic Conditions
- Market Trends
- Commercial Real Estate Momentum Index (CREMI)

Atlanta Fed President - Raphael Bostic



“This recession was unlike anything we ever had before, so the recovery is going to be that way as well.” - CNBC 2/1/2021

Kansas City Fed President - Esther George

Wall Street Journal, 2/16



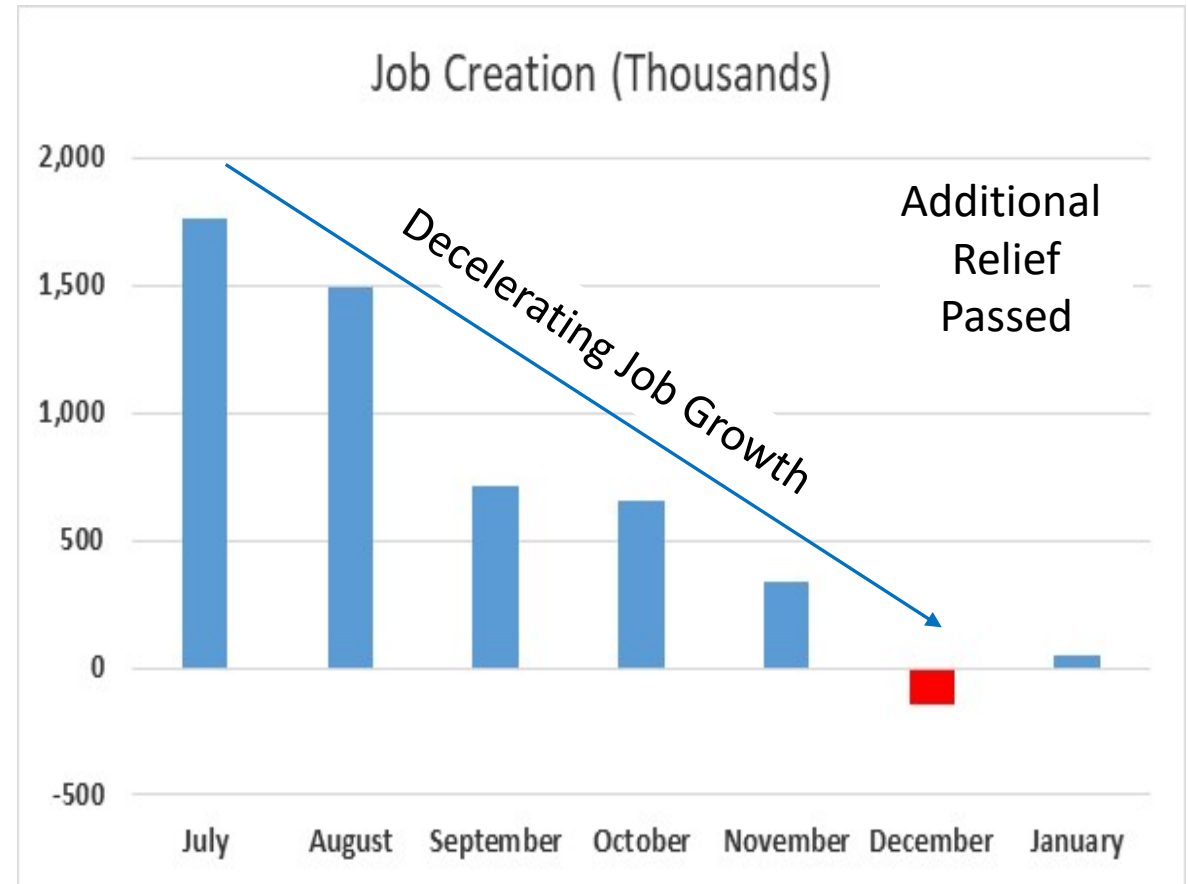
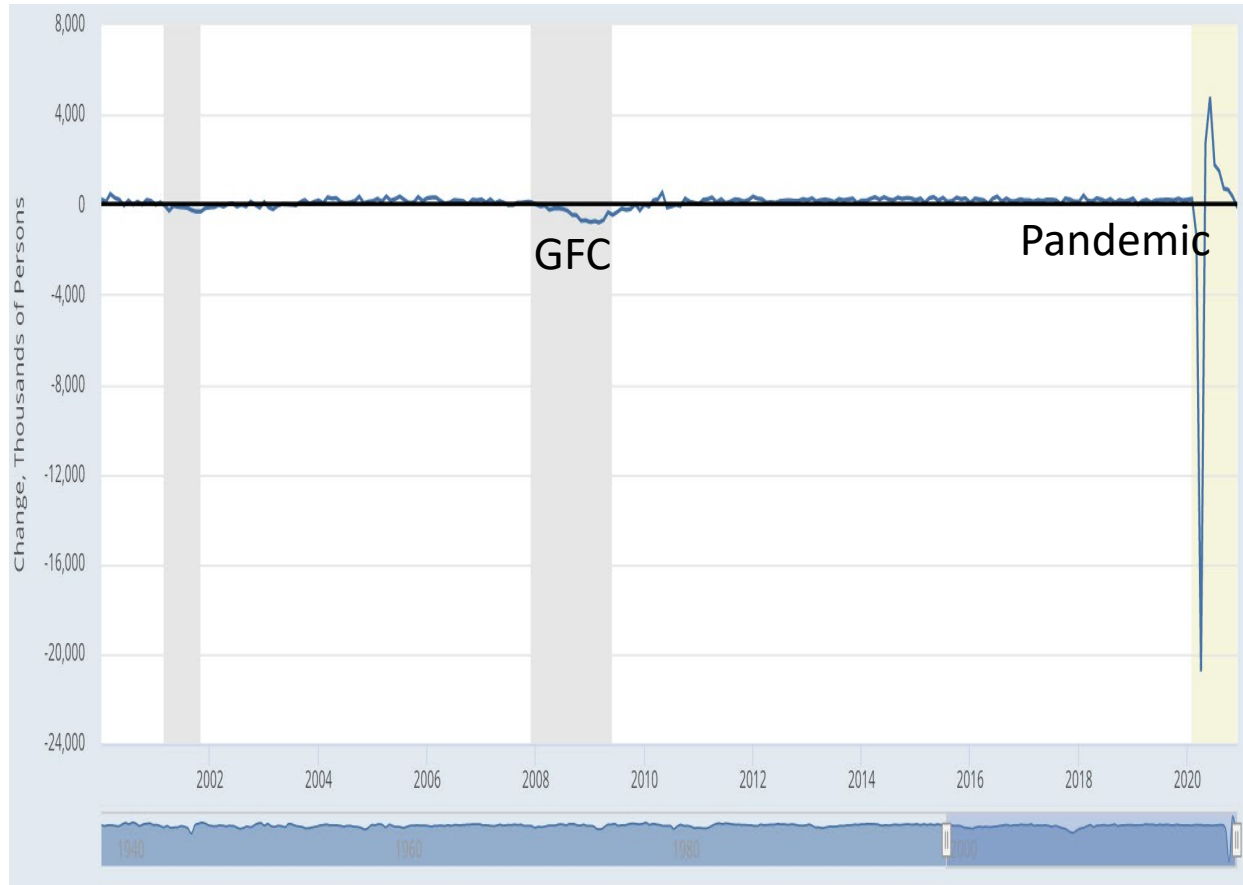
"The financial stability implications of real estate can hardly be understated."

"The pandemic will cause, or at least hasten, some significant structural changes in real estate."

"Many renters and businesses could find themselves unable to meet their obligations, forcing banks to realize losses on existing loans and weighing on credit growth and broader economic activity."

Employment

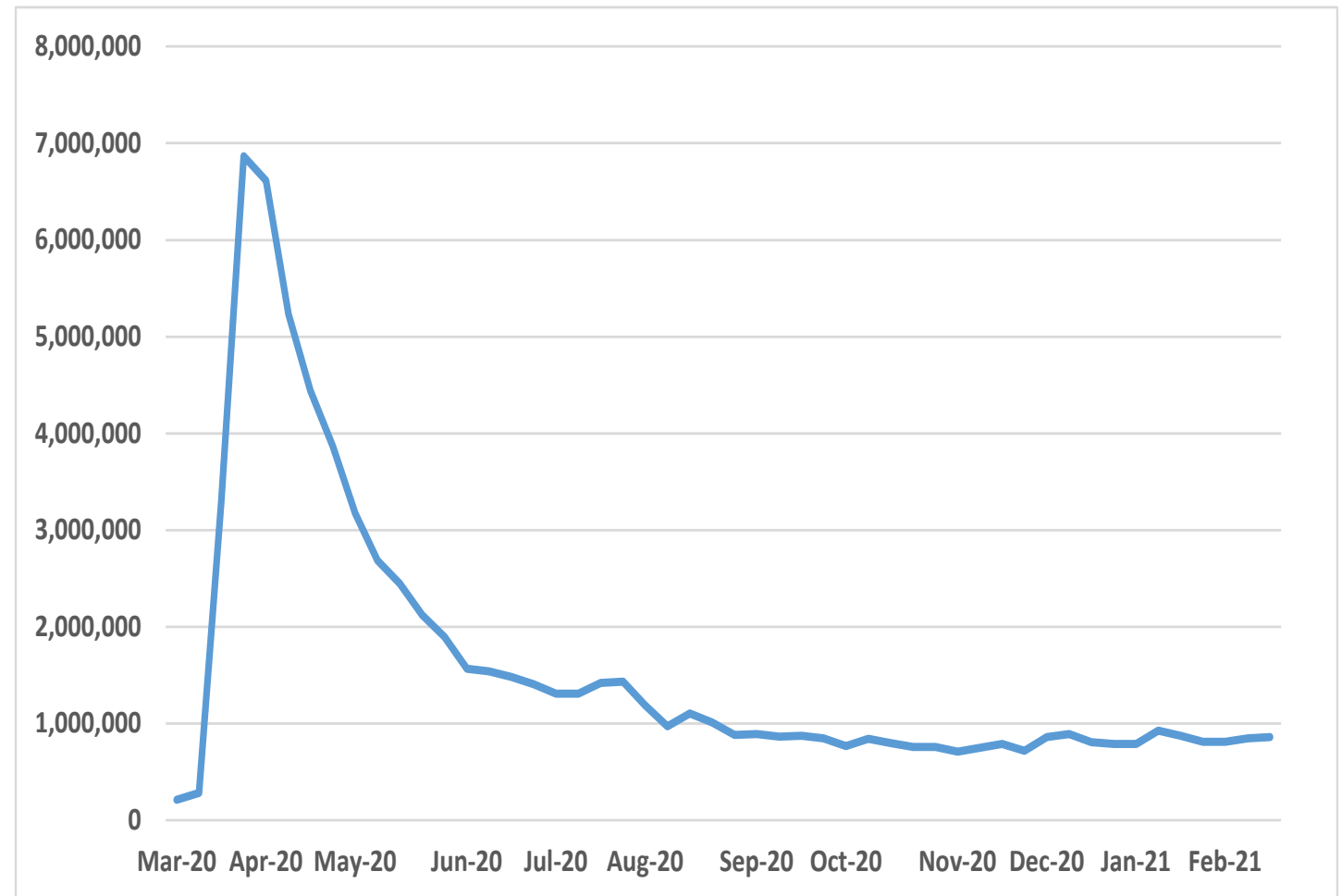
Last Two Decades of Job Creation, and Last Half of 2020



Employment

Weekly Initial Jobless Claims

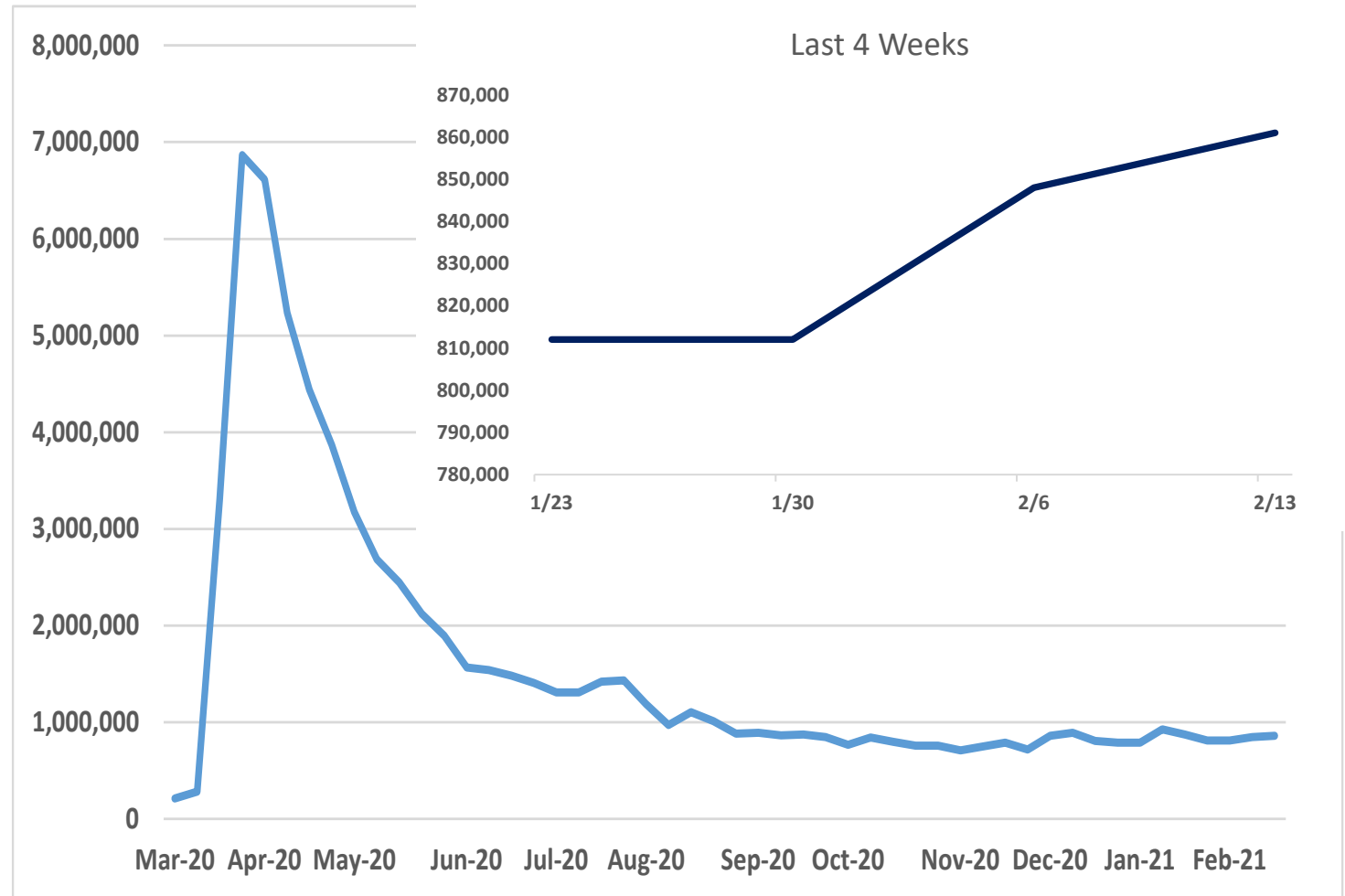
- 52-week average preceding COVID was 216,000
- In the span of 4 weeks in March 2020, claims grew 32x. (Claims increased from 211,000 to 6,867,000)
- Current claims levels are almost 4x the 2019 52-week average.



Employment

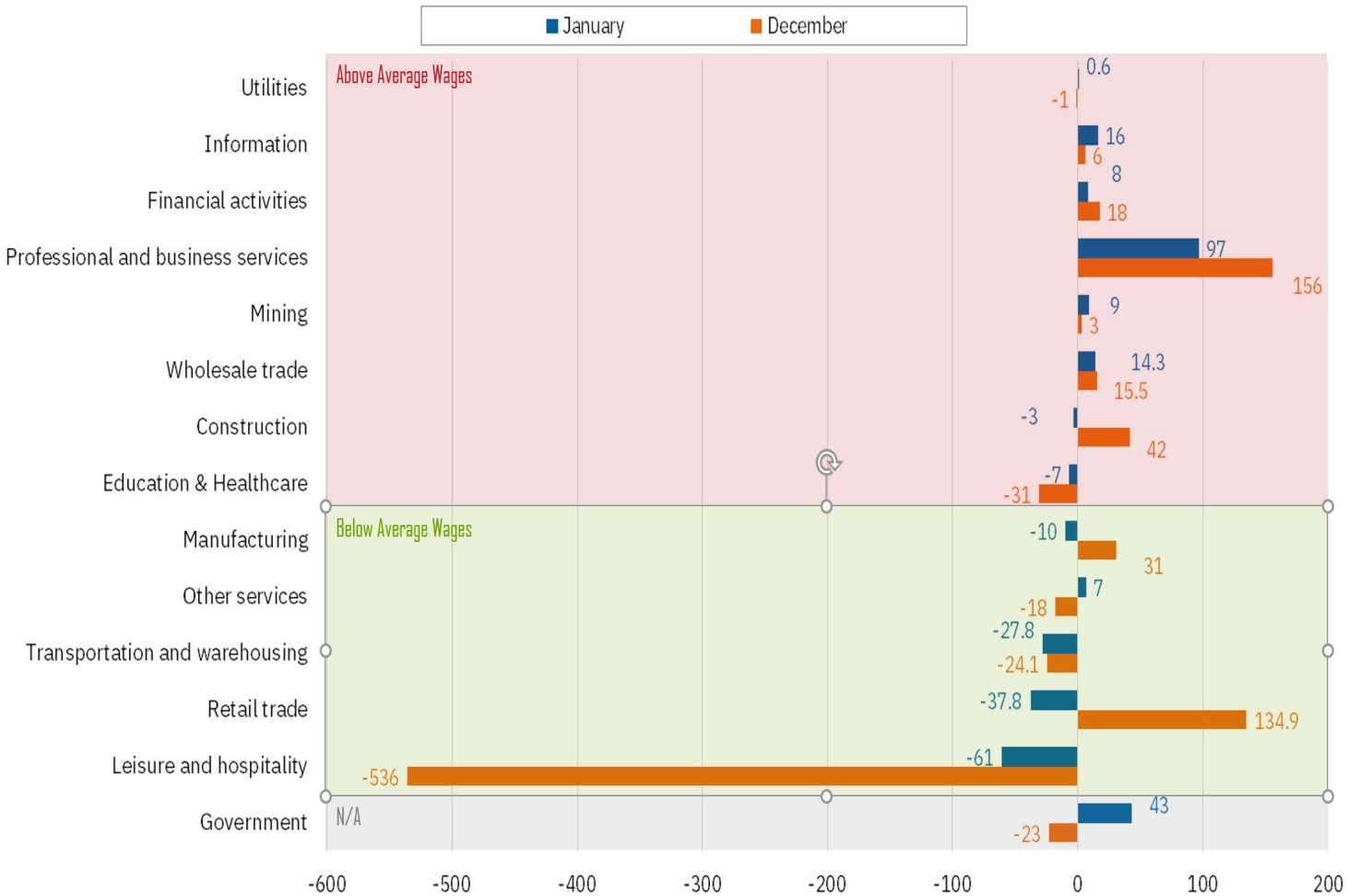
Weekly Initial Jobless Claims

- In the last four weeks (1/23-2/13), the number of weekly jobless claims has risen by 6%.
- Claims levels are 25-30% above the 2009 peak level.
- Continuing heightened levels of unemployment creates headwinds for a broad-based rebound in commercial real estate.



January Job Creation

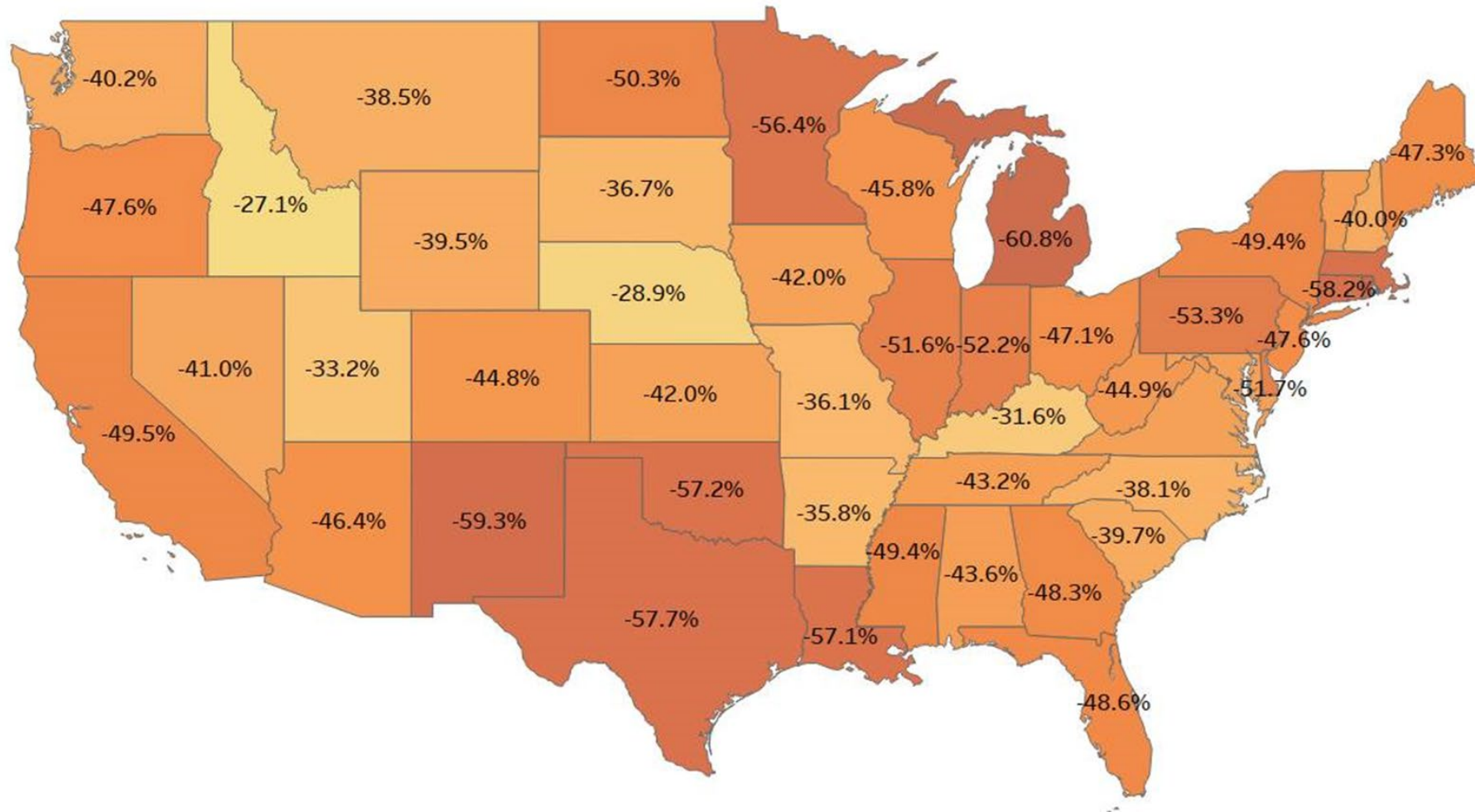
Gain of 49,000 jobs was disappointing



- Following up on December’s huge pullback, Leisure and Hospitality experienced a loss of almost 61,000 jobs during January, due primarily to reduced travel and shutdowns associated with accelerating rate of infections. This will continue to create headwinds for some Hotels and Retail.
- Professional and Business Services created 161,000 jobs during the month. It should be a good omen for future Office use.
- Retail trade had a sizeable uptick at 135,000

A Tough Environment...

% Change, Number of Leisure and Hospitality Small Business Open (Jan 2020)



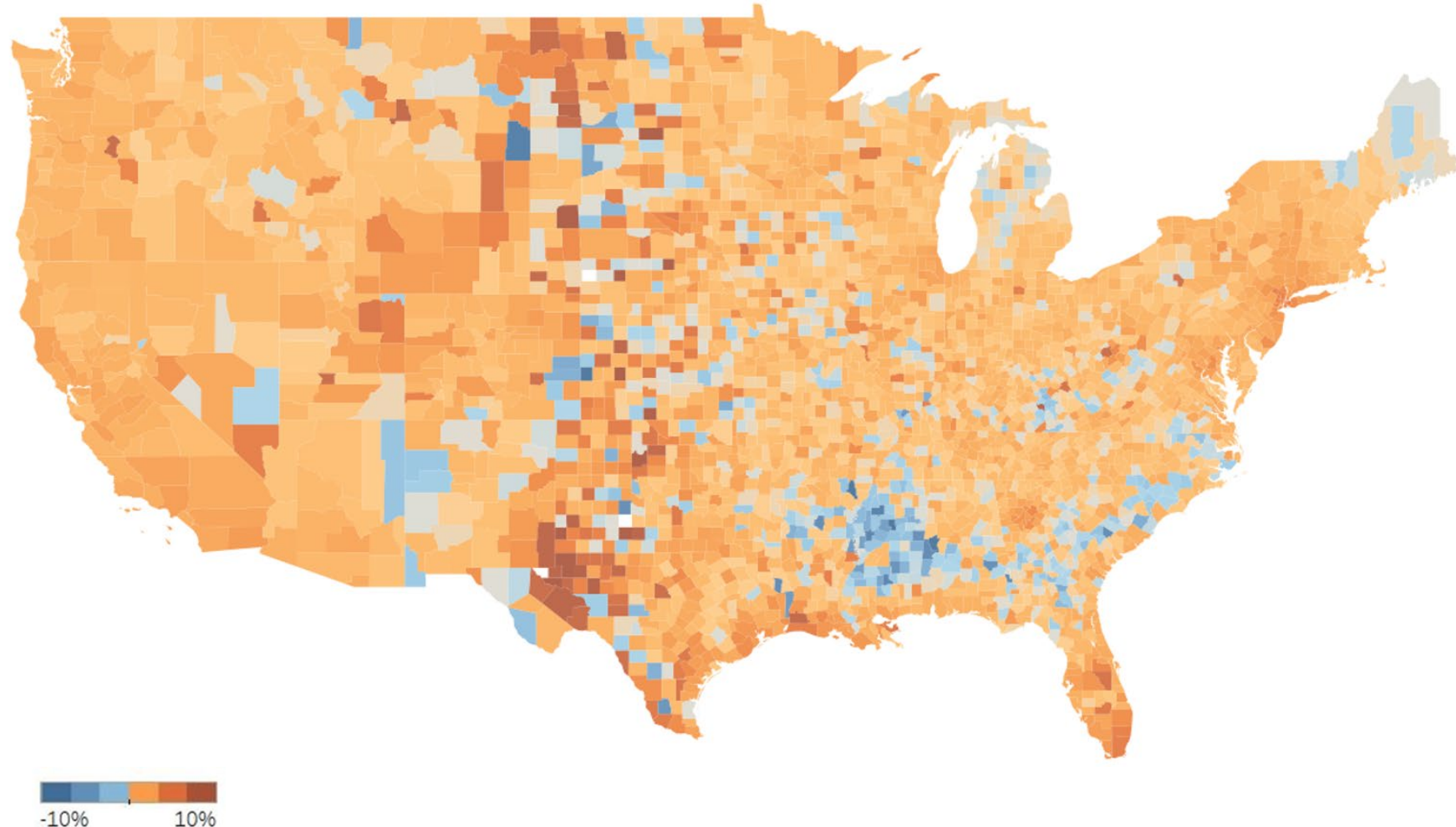
Data: 12/30/2020

Source: Womply, Risk Analysis Unit/Federal Reserve Bank of Atlanta

1st Lien Home Delinquency Rates

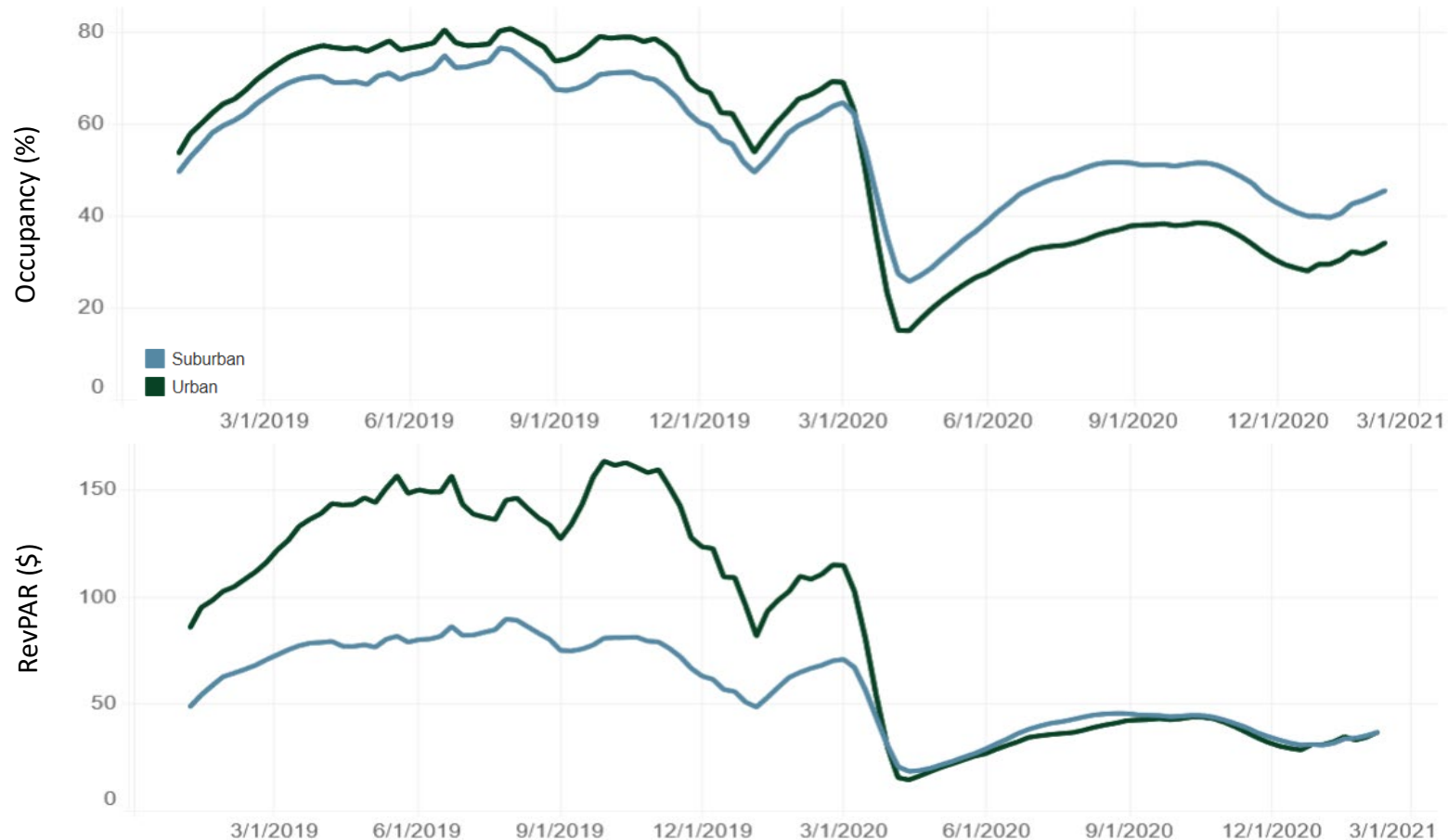
Change January 2020 to December 2020

- Delinquency rates on the rise since the beginning of the year.
- South and Central Florida are some of the areas where rates have risen notably.
- Gov't mandates and the Low-Rate environment associated with the downturn are positively impacting the residential market.



Challenging Hotel Conditions

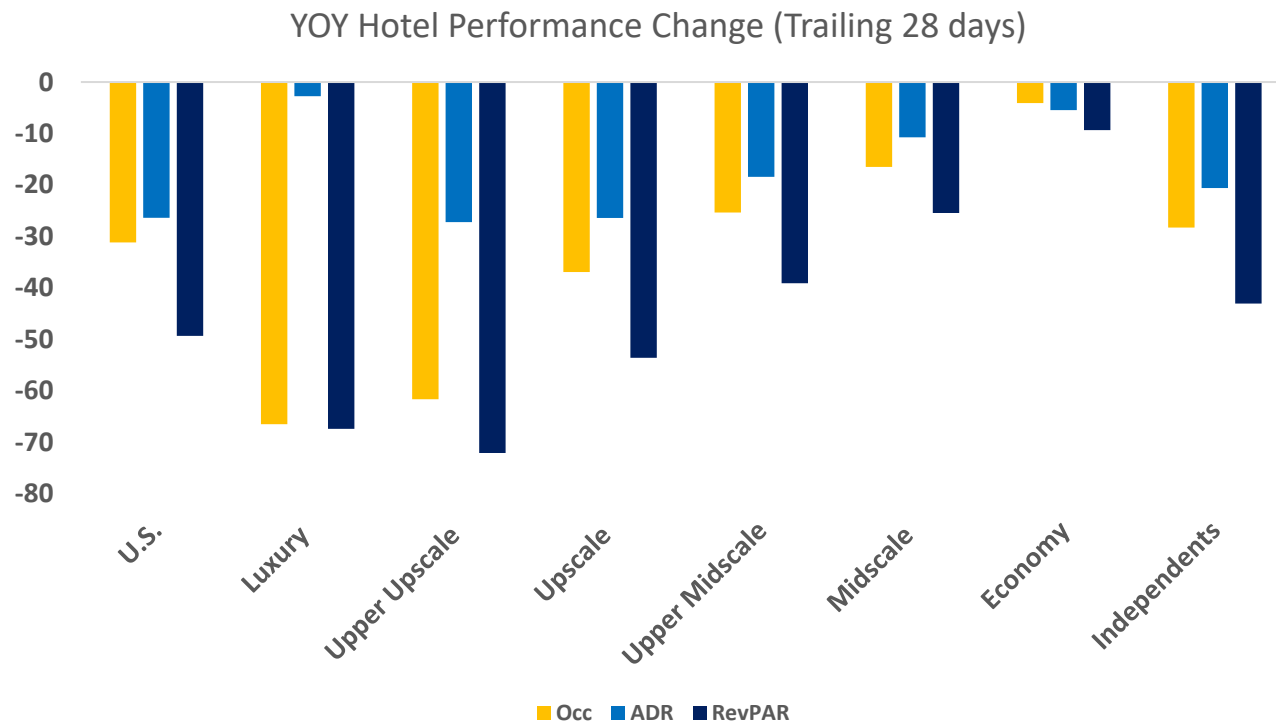
Occupancy and RevPAR Trends Face Strong Headwinds



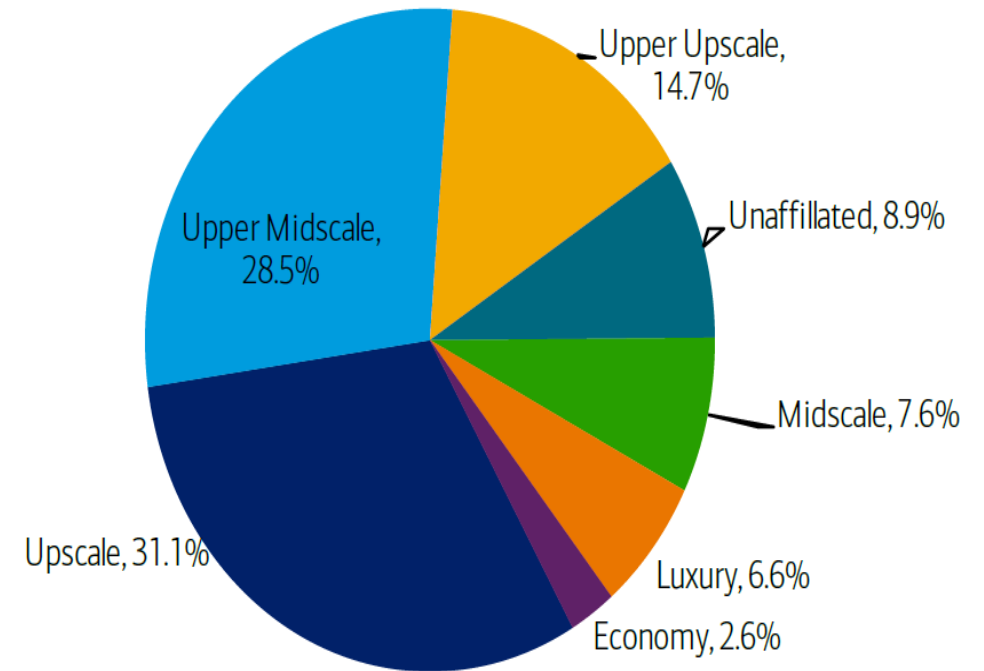
- Since 2019, Urban hotel occupancy has dropped by over 50%.
- RevPAR at Urban located hotels has dropped 75% from 2019 levels. Suburban RevPAR has dropped by 60% since 2019.
- Conditions are beginning to improve as the implications with the pandemic begin to recede.

Challenging Hotel Conditions

Occupancy, Average Daily Rate & RevPAR + Construction



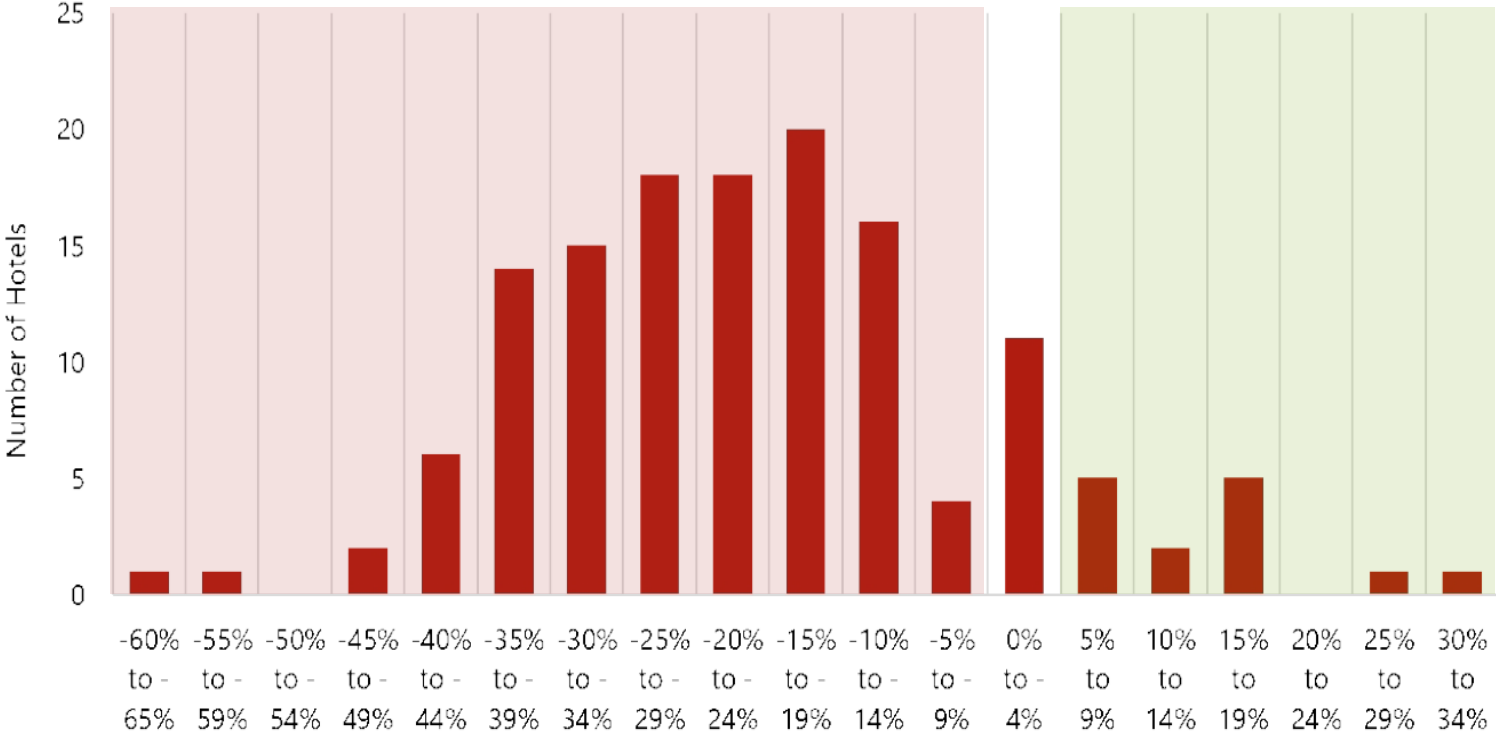
In the pipeline...



Hotel Values

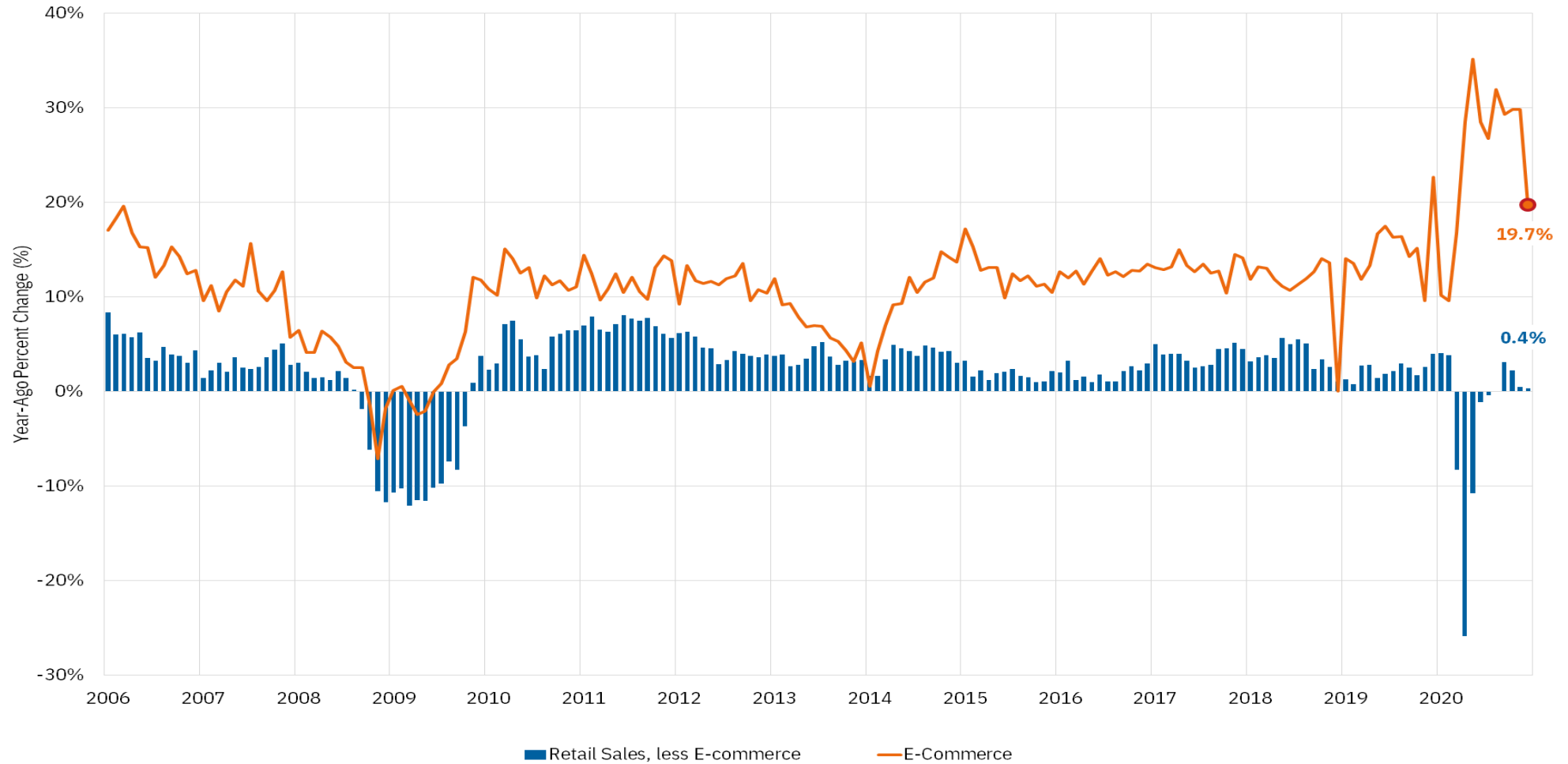
Roughly 140 hotels initially appraised in 2017-2019, were reappraised in 2020

Values Have Predominantly Declined Between 15% and 30%



Source: HVS

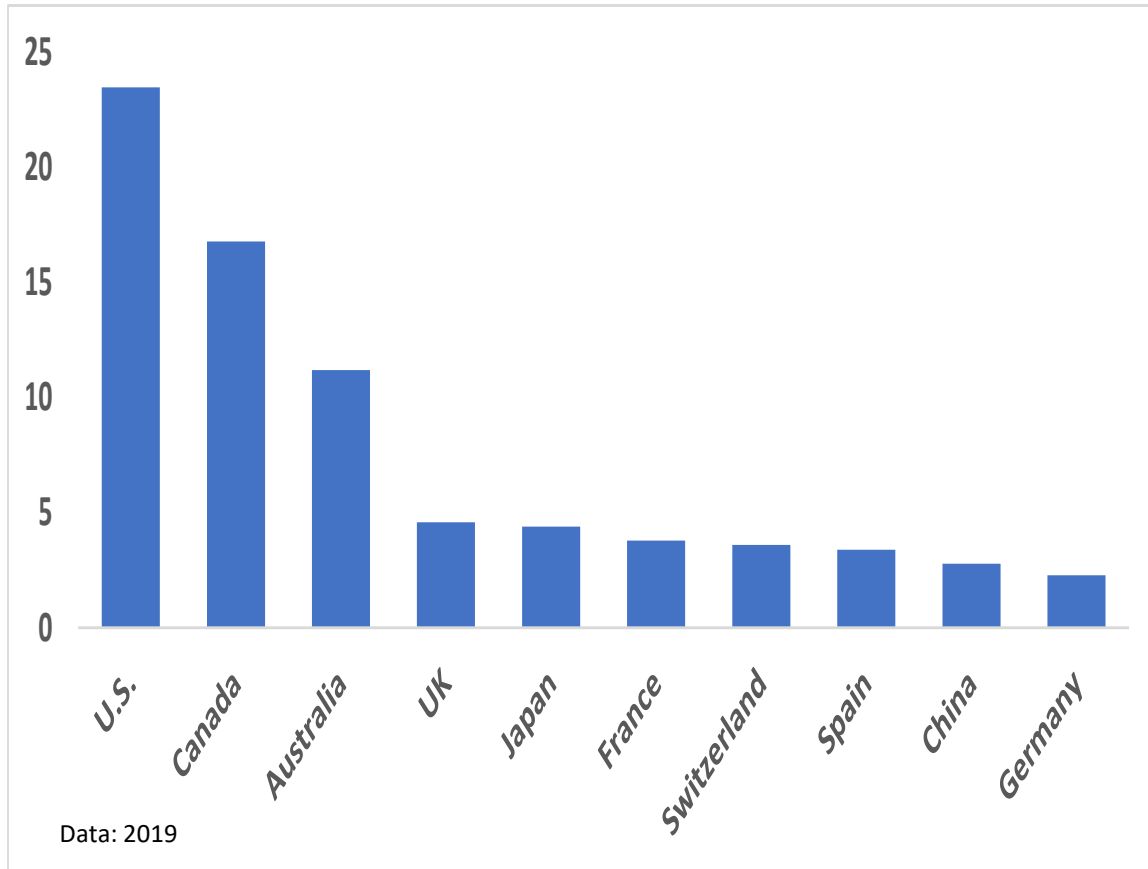
Change in Retail Sales



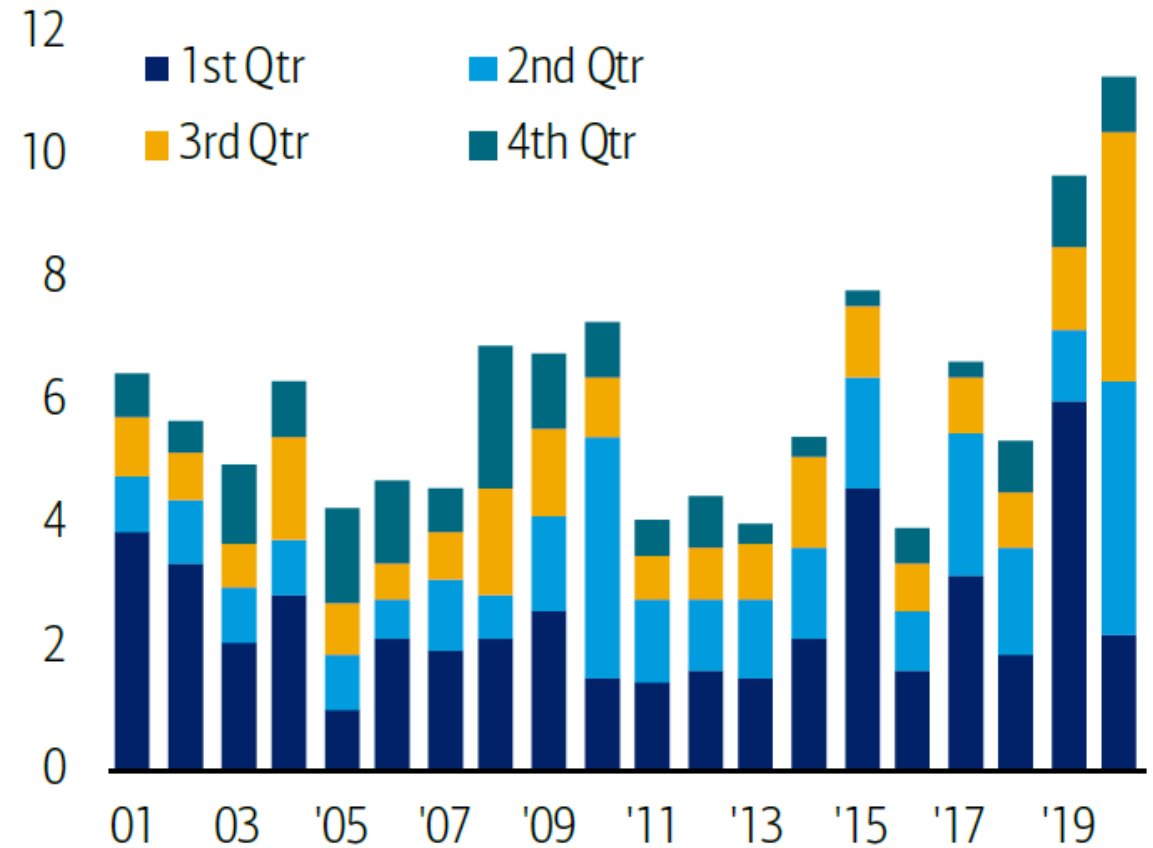
Too Much of a Good Thing??

Global Retail Square Feet Per Capita & Store Closures

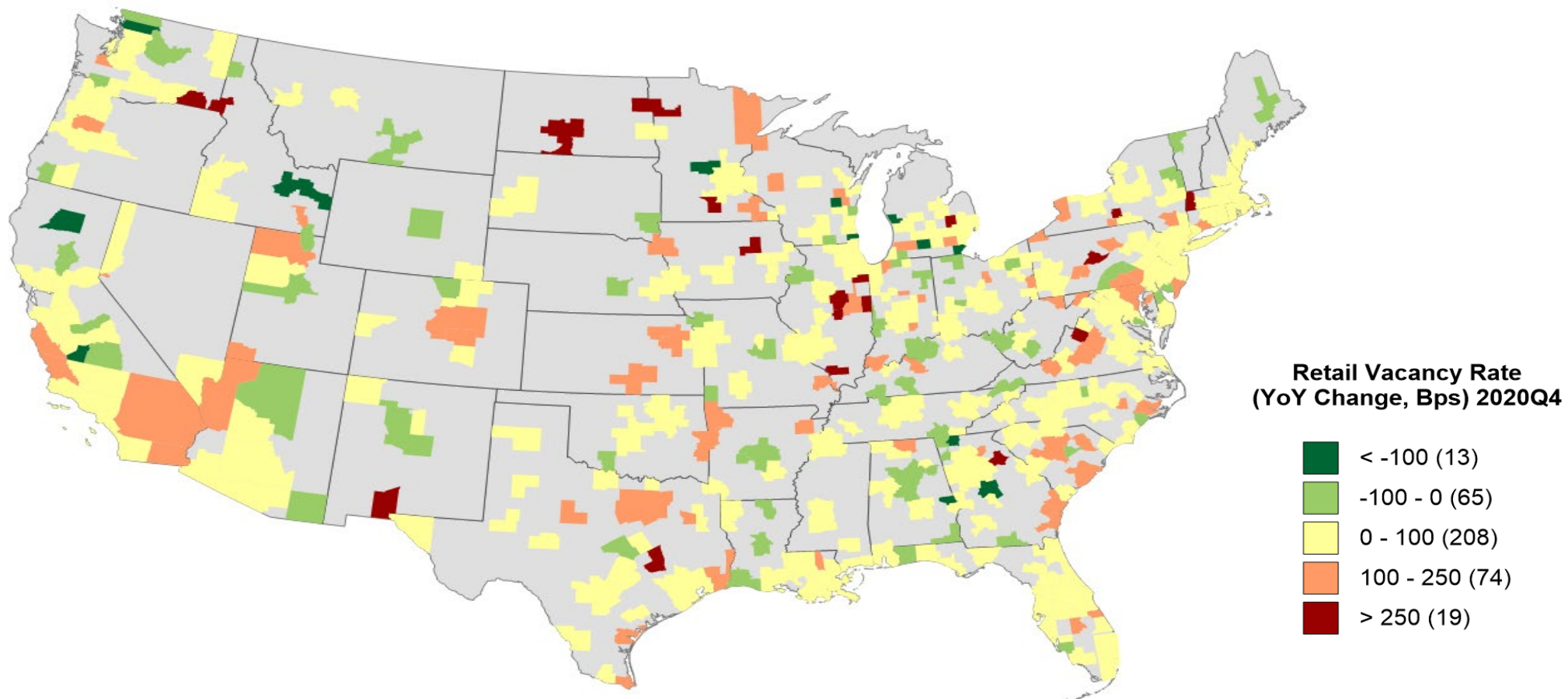
Retail Square Feet Per Capita



of Retail Store Closures by Quarter by Year (000s)



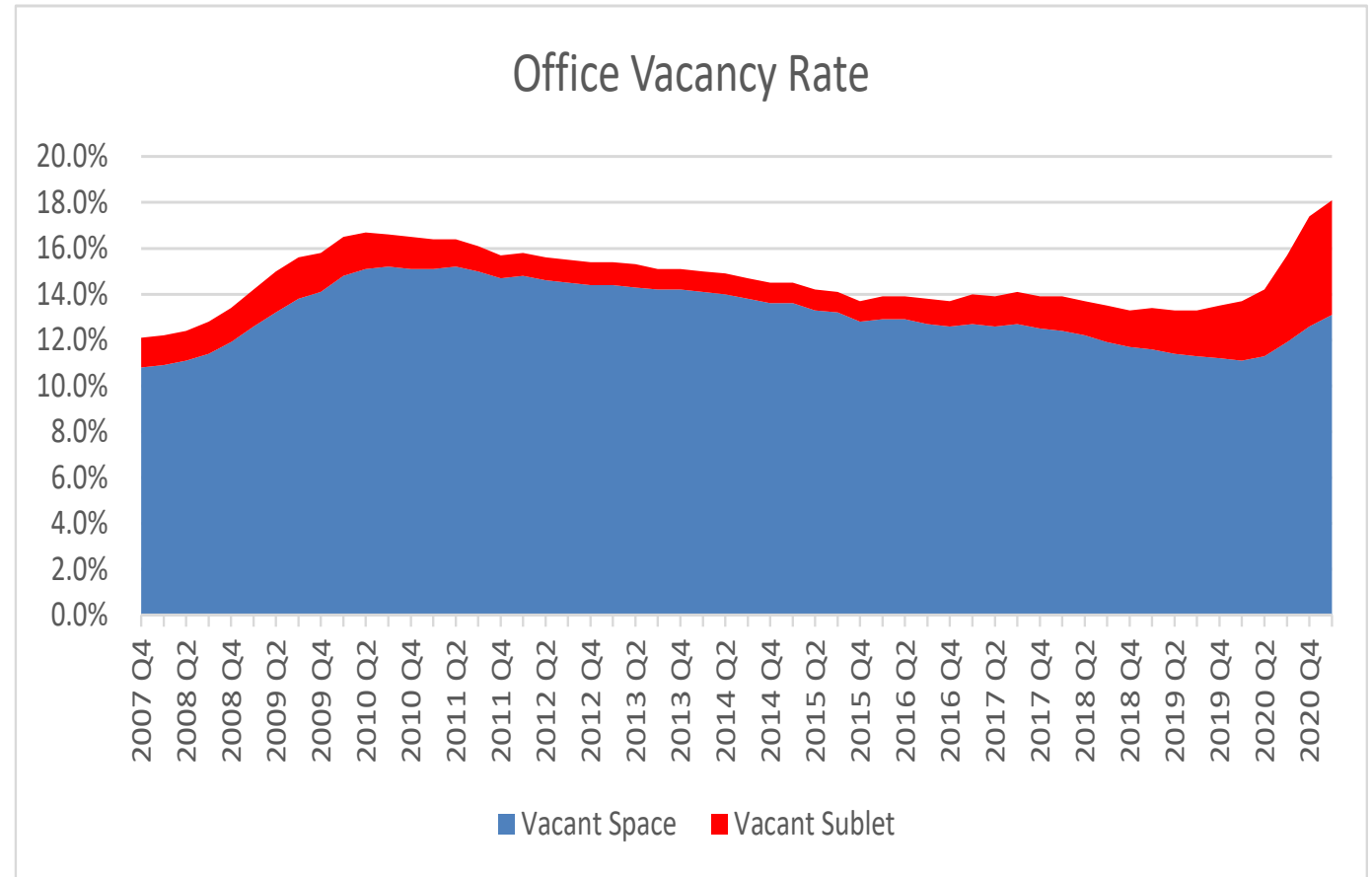
Change in Retail Vacancy



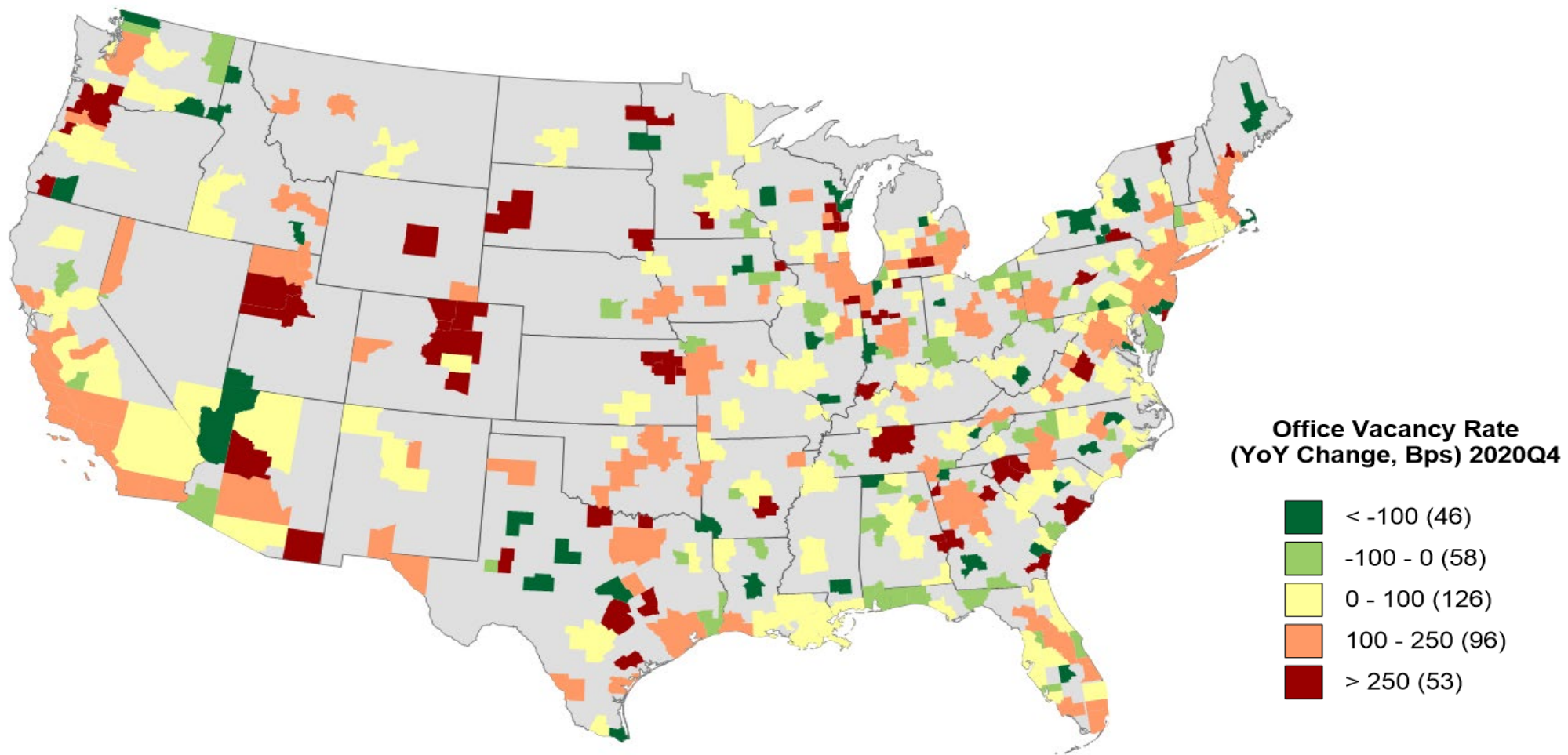
Office Vacancy...Not So Great?

Direct and Sublease Vacancy Rates

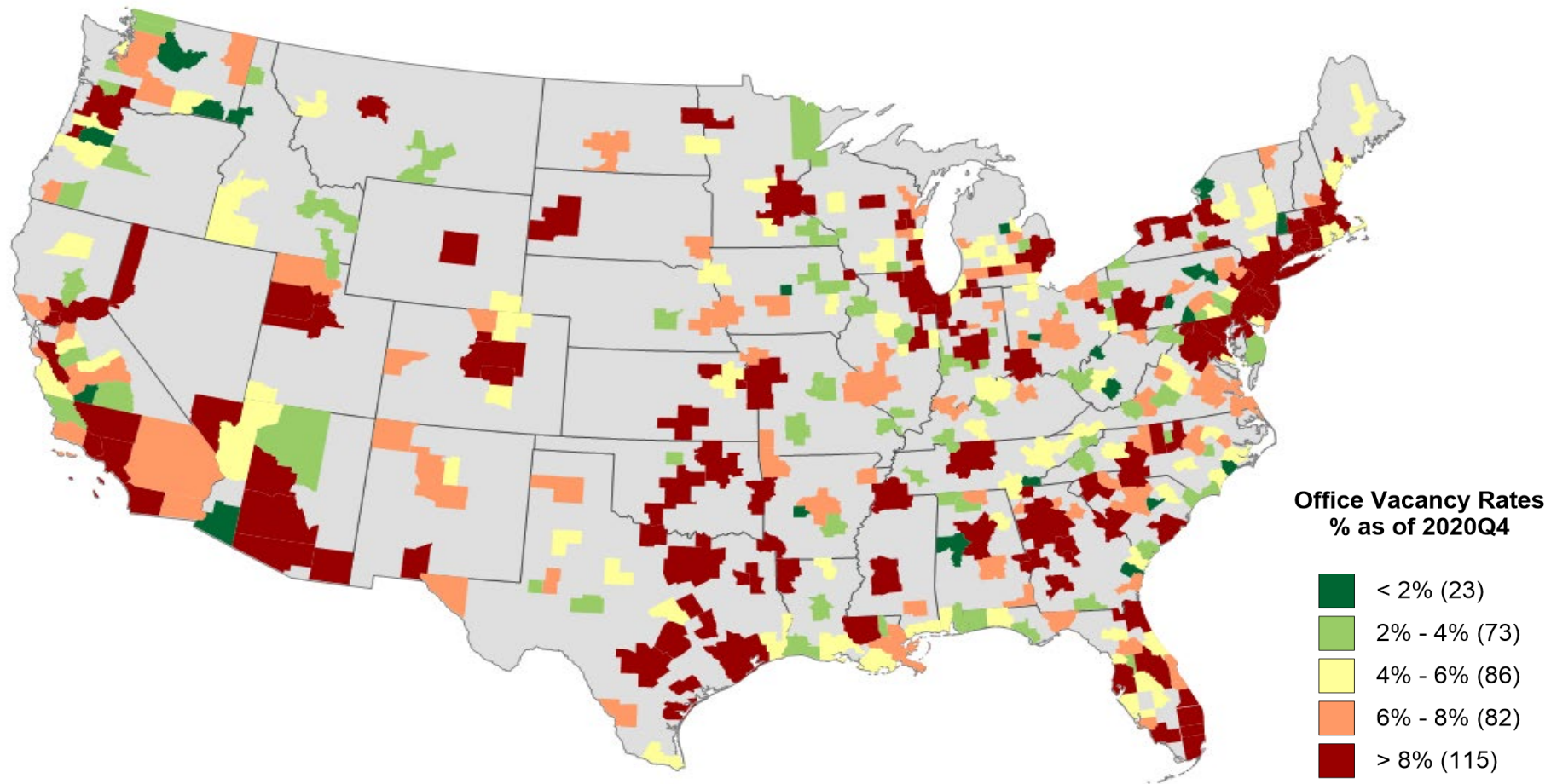
- Vacant space (in blue) has grown by 200bps in the last 12 months.
- When vacant sublet space (in red) is added, vacancy has increased by 440bps in the last 12 months.
- At the height of the 2008 recession, Office vacancy rates peaked at 16.7%. Today, vacancy rates are estimated to be 140bps higher, at 18.1%.



Change in Office Vacancy

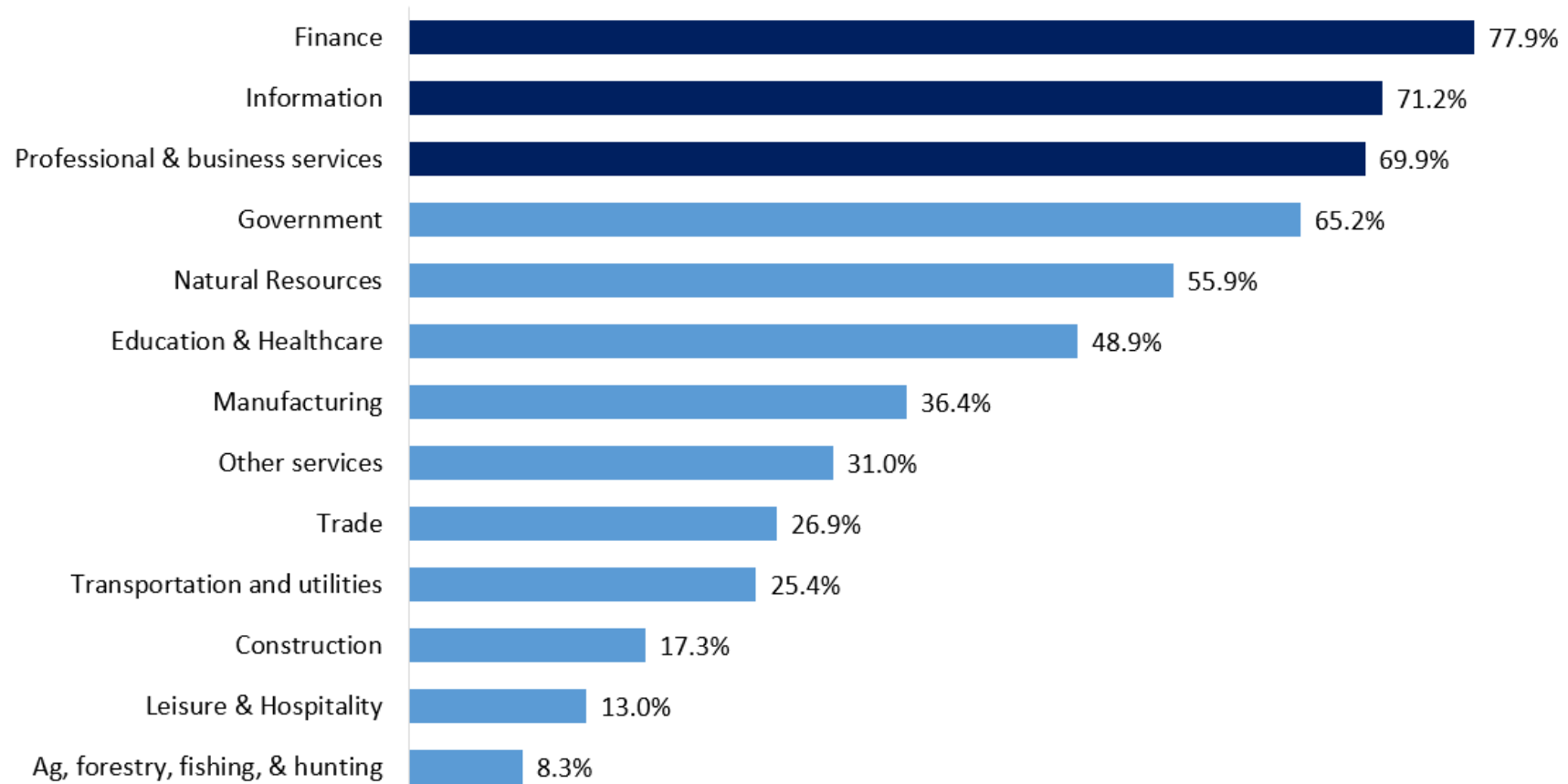


Office Vacancy

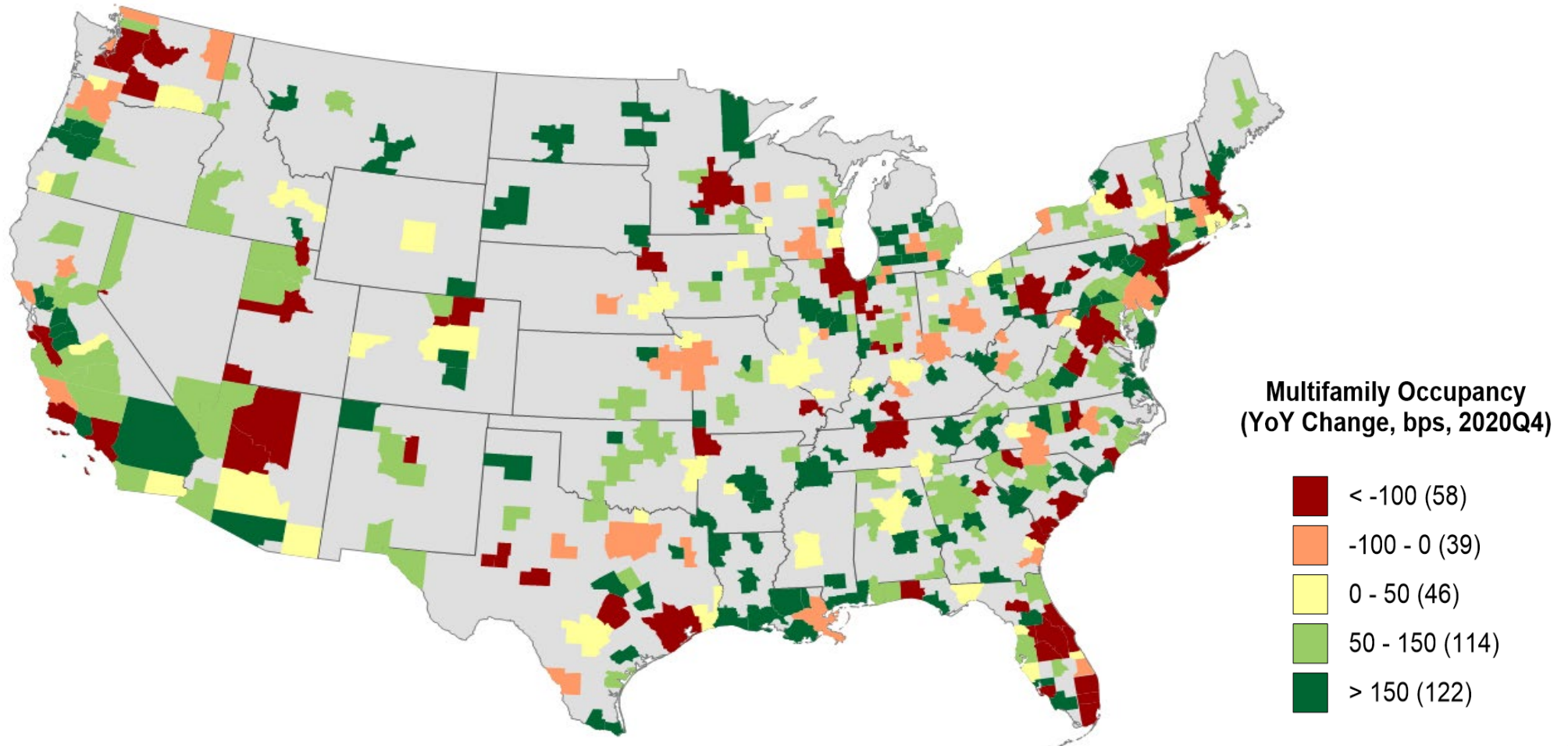


The Ability of Future Telework

Percentage of successful workers by sector



Change in Multifamily Occupancy



Multifamily Rent Growth

2020 YOY Change

Notable Growth
3% or More

Mild Growth
1% to +2.9%

Flat (Positive)
+0.9% to +0.1%

Flat (Negative)
0% to -0.9%

Mild Loss
-1% to -2.9%

Notable Loss
-3% or More

Riverside
Sacramento
Memphis
Virginia Beach
Greensboro
Phoenix
Detroit
Providence
Las Vegas
Indianapolis
Jacksonville
Columbus
Baltimore
Cincinnati

Milwaukee
Kansas City
West Palm
Philadelphia
Cleveland
St. Louis
Ft. Worth
Charlotte
Salt Lake City
Atlanta

Ft. Lauderdale
Raleigh
San Diego

Portland
Anaheim
San Antonio

U.S. Average
Dallas
Minneapolis
Pittsburgh
Denver
Miami
Orlando
Houston
Nashville
Newark

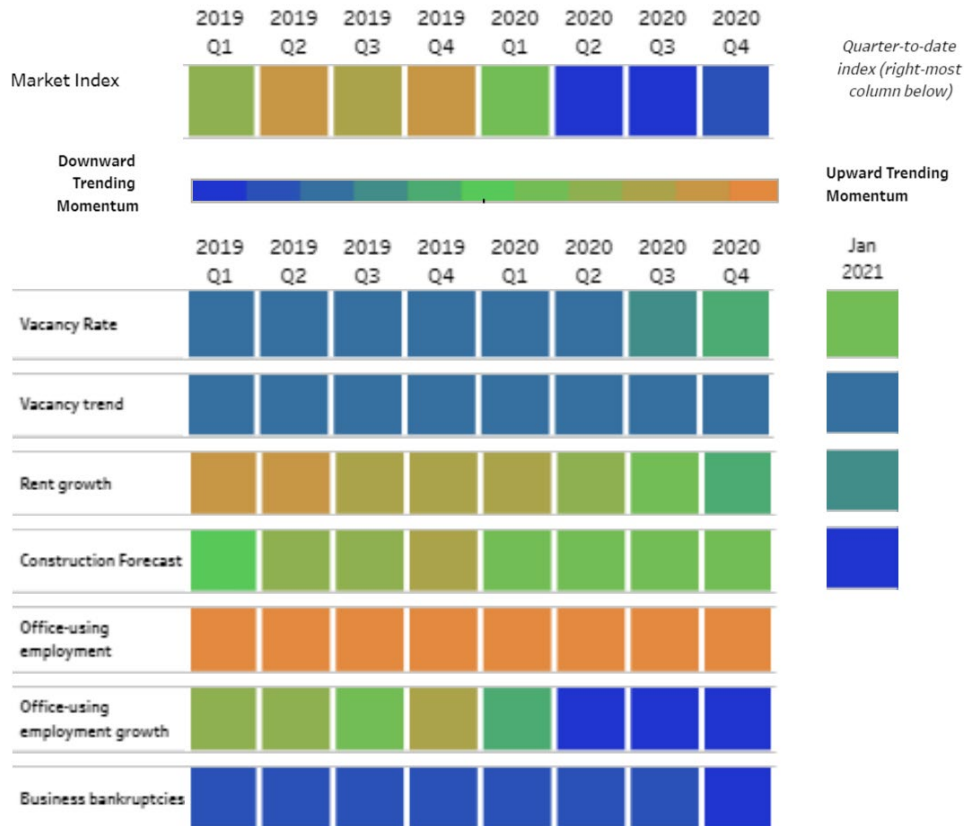
Austin
Chicago
Oakland
Wash DC
Los Angeles
Seattle
Boston
New York
San Jose
San Francisco

Commercial Real Estate Momentum Index

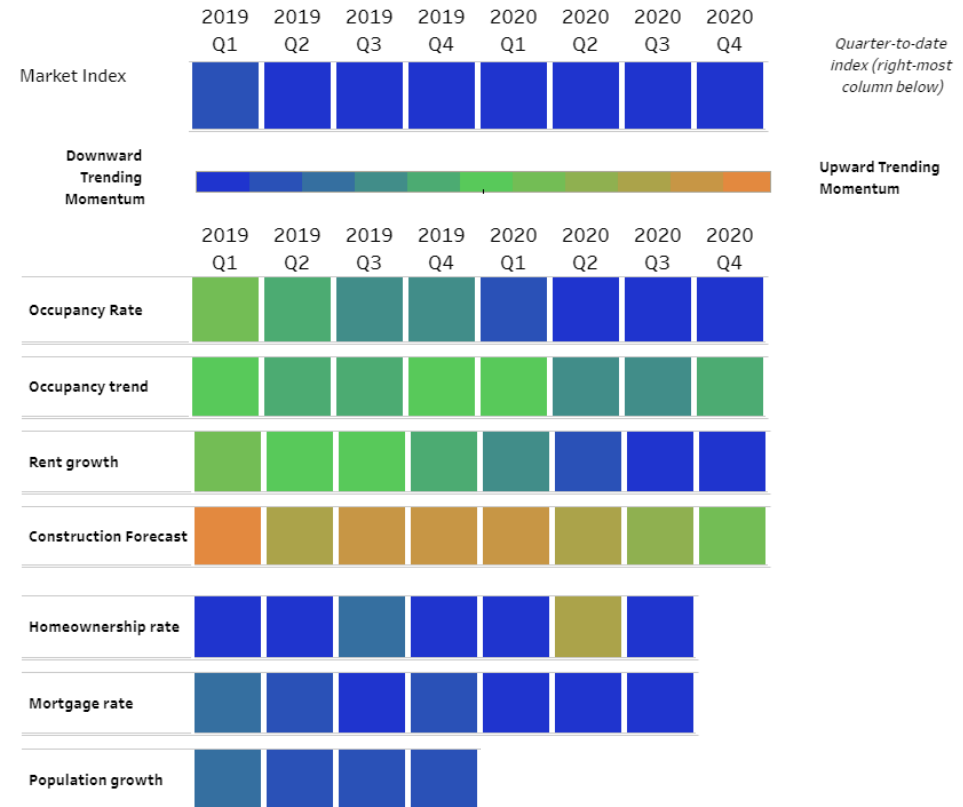
Where can it be found:
 FRBATLANTA.org

See Data and Tools Tab
 Or
 Search: Commercial Real Estate
 Momentum Index

Atlanta-Office

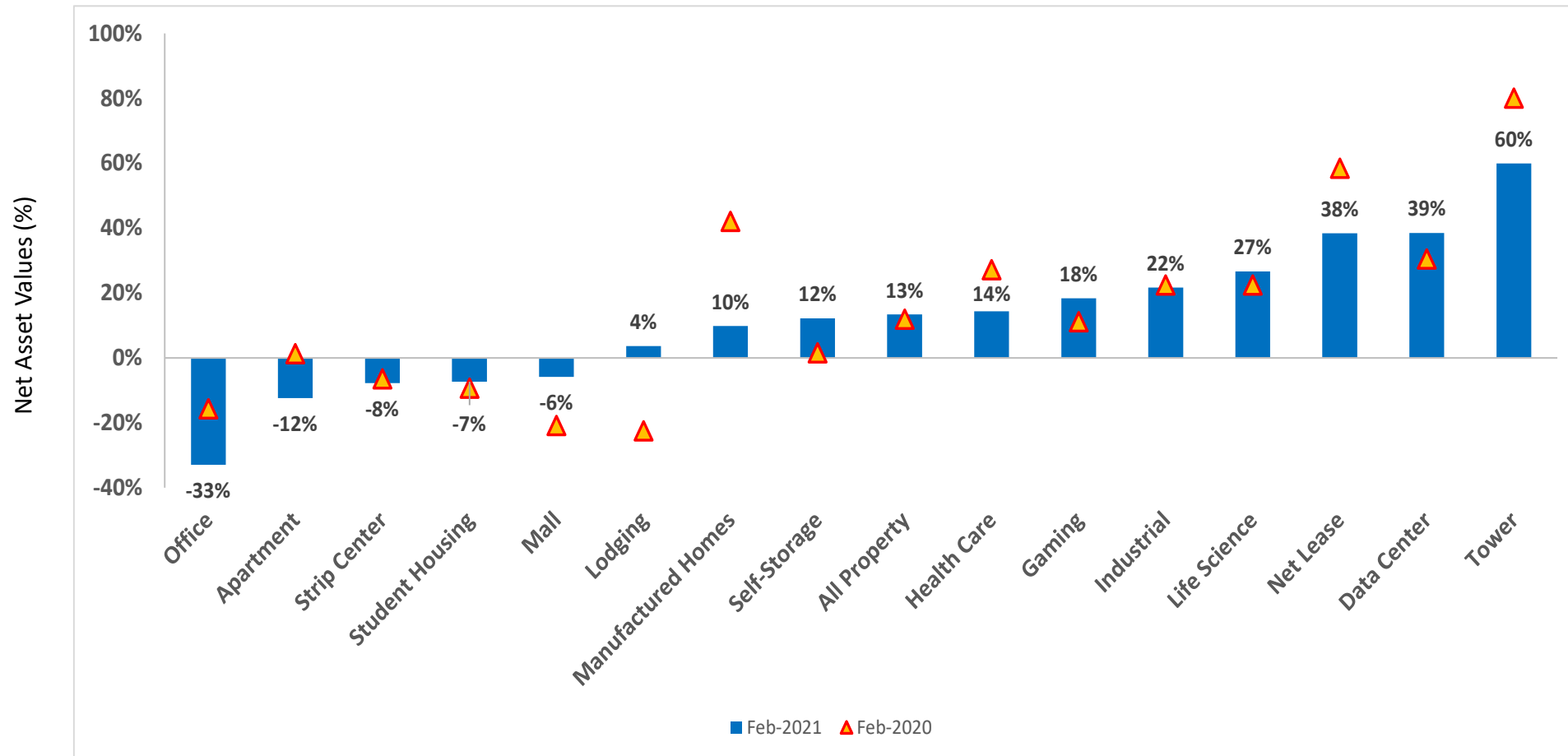


San Francisco-Multifamily



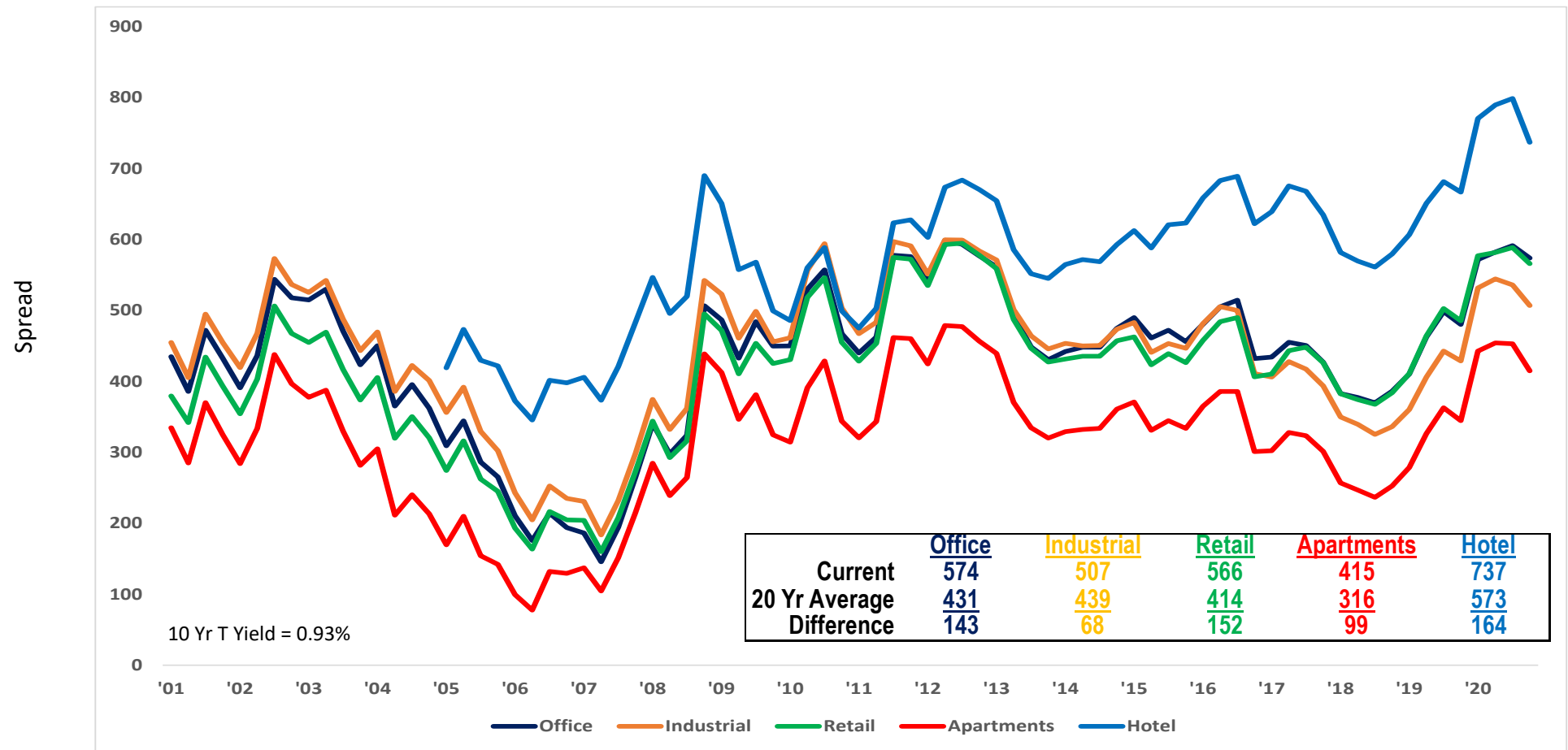
REIT Sector NAVs

Feb 2020/Feb 2021



CRE Risk Premiums

Spread between CAP RATES and 10YR Treasury

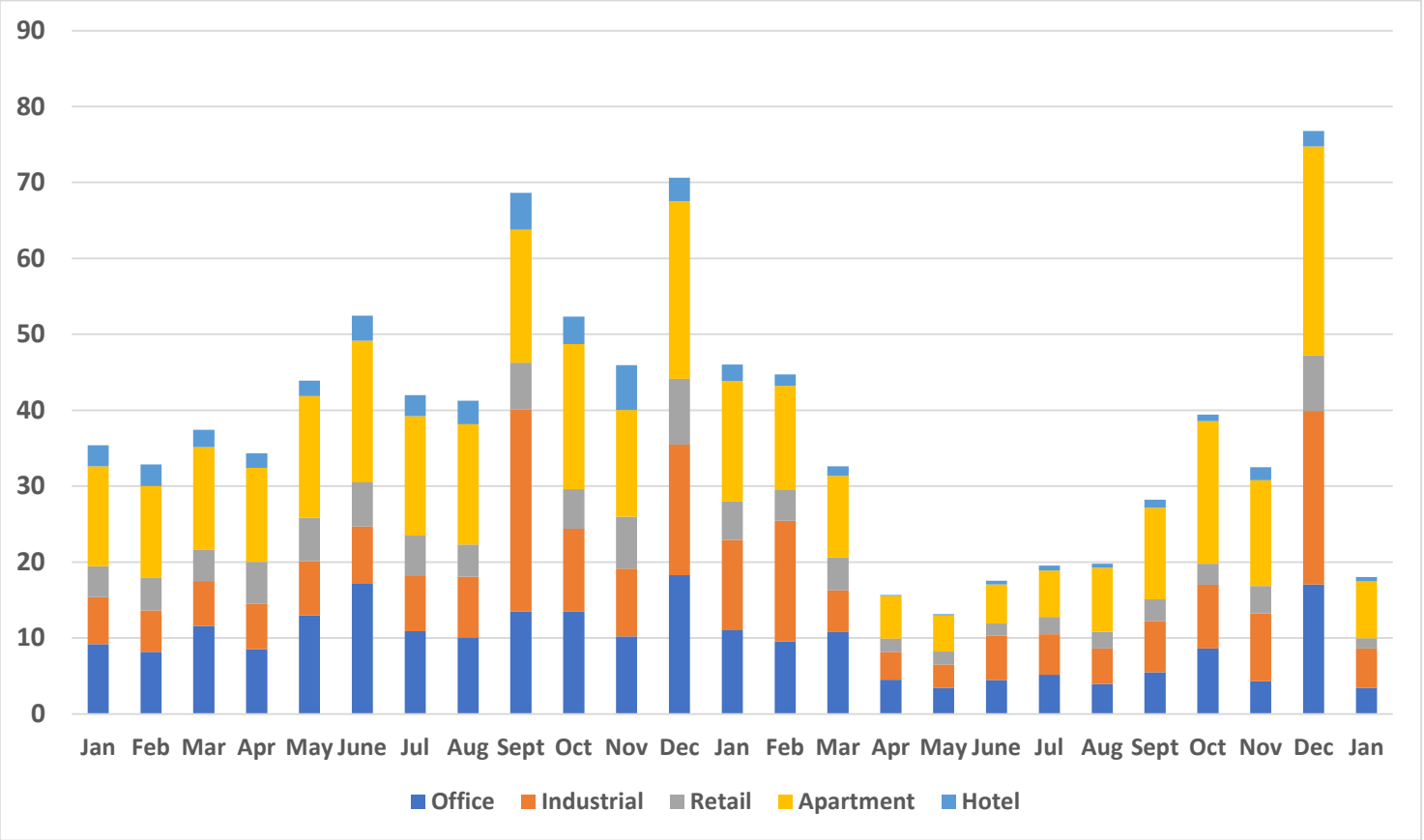


Data through 4Q 2020

Source: Real Capital Analytics, Risk Analysis Unit/Federal Reserve Bank of Atlanta

Pandemic Impact on CRE

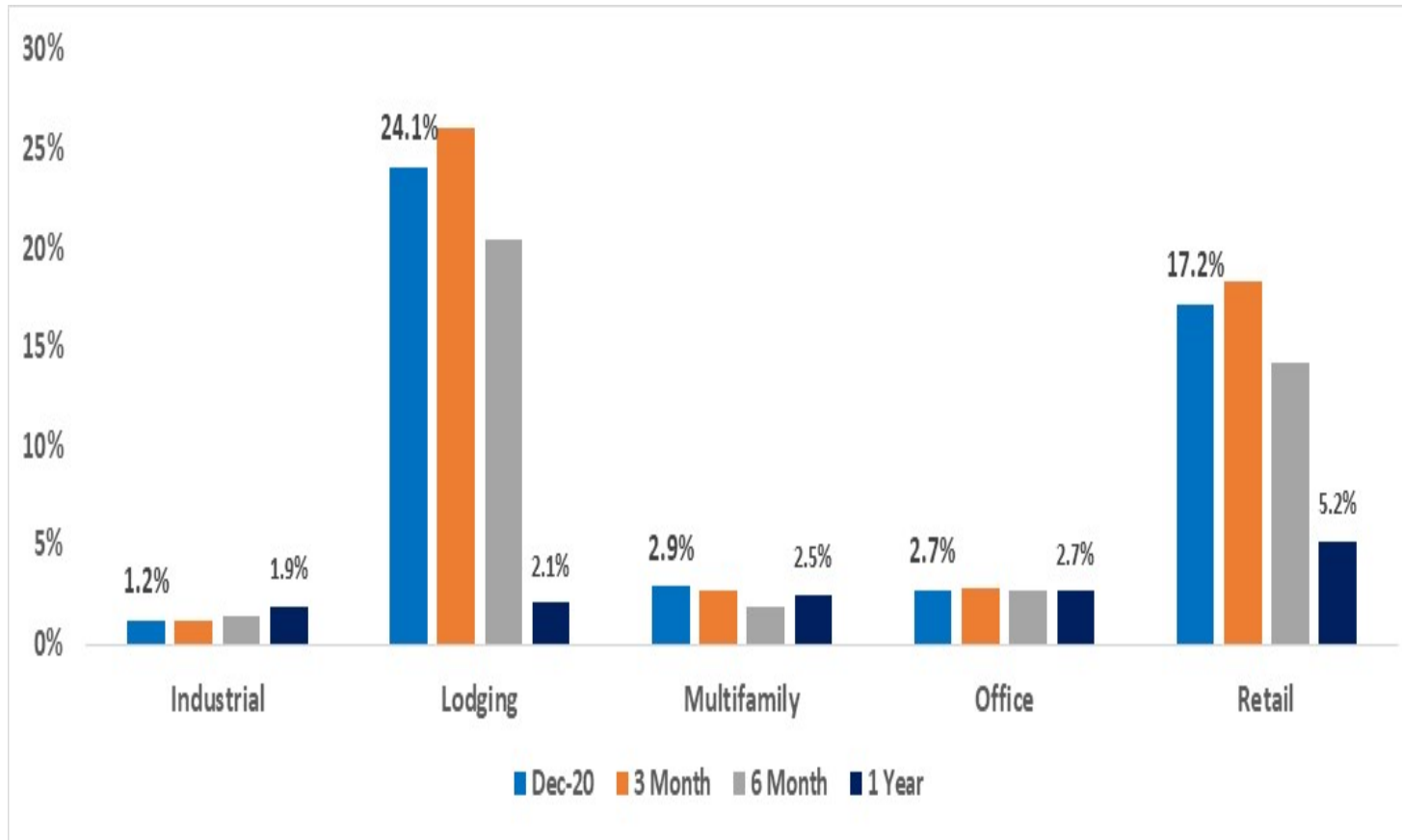
Sales Volume, CPPI & REIT Indices



	<u>Hotel</u>	<u>Industrial</u>	<u>Multifamily</u>	<u>Office</u>	<u>Retail</u>
RCA CPPI (Data through 12/31)	3%	7%	6%	1%	-4%
GreenStreet CPPI (appraisal based) data through (2/1)	-13%	10%	-5%	-9%	-13%
REIT Indices data through (2/1)	-22%	5%	-20%	-30%	-20%

Source: RCA, GreenStreet, Risk Analysis Unit/Federal Reserve Bank of Atlanta

CMBS Special Servicing



- Hotel and Retail loans in CMBS have faced particular headwinds during the pandemic.
- In the case of Hotels, CMBS Special Servicing rates are 12X pre-pandemic results. Retail rates are 3X those of December 2019.
- Most Hotels borrowers have received temporary loan modifications to use FFE funds to remain current on P&I.
- Recent rates appear to be moderating slightly compared to rates 3 months ago.

Closing

1. Unprecedented unknowns remain....
 - A. The Hotel and Retail Sectors have faced the brunt of the loss of economic activity in the CRE space. Activity in both sectors is improving; however, some property will take an extraordinary amount of time to recover and in some cases may not. Some industries are recovering nicely, some not.
 - B. Risk in the Office sectors is increasing as employers right-size their office footprint.
2. Economic activity has improved since the early stages of COVID; as more than 50% of the 22 million jobs lost have been regained. Household spending on durable goods has been strong, while spending on services remains low largely because of ongoing weakness in the sectors that typically require people to gather closely...travel & hospitality.
3. Establishing CRE values has become very challenging due to the loss of tenants, lack of sales data and reopening challenges.

Thank You!



Federal Reserve
Bank of Atlanta