



Commercial Real Estate: An Outlook on the Uncertain Road Ahead

FHLBank Atlanta Welcome

October 14, 2020



- Upcoming FHLBank Atlanta Virtual Events
 - Additional Webinar in this Series – November
 - eNotes Webinar – November 4, 2:00 p.m.
 - CICA Expansion Webinar
 - November Roundtables

- Cal Evans, Credit Market Intelligence Director, Synovus Bank

Thank You

FHLBank Atlanta
**Commercial Real Estate:
An Outlook on the Uncertain Road Ahead**

October 14th, 2020

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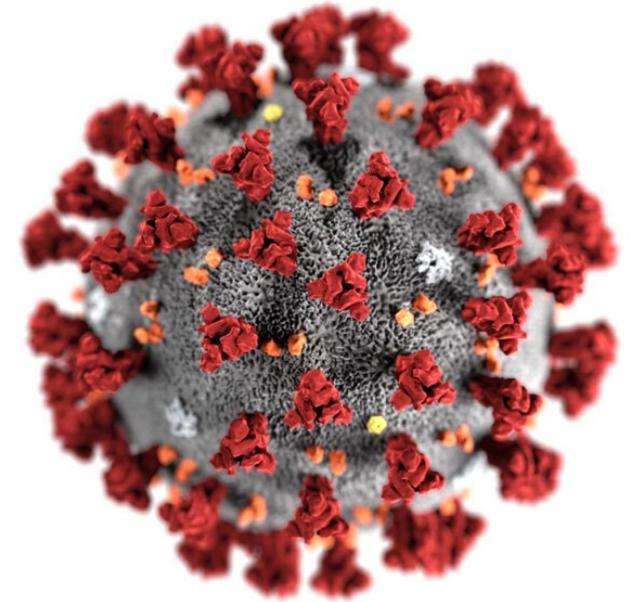
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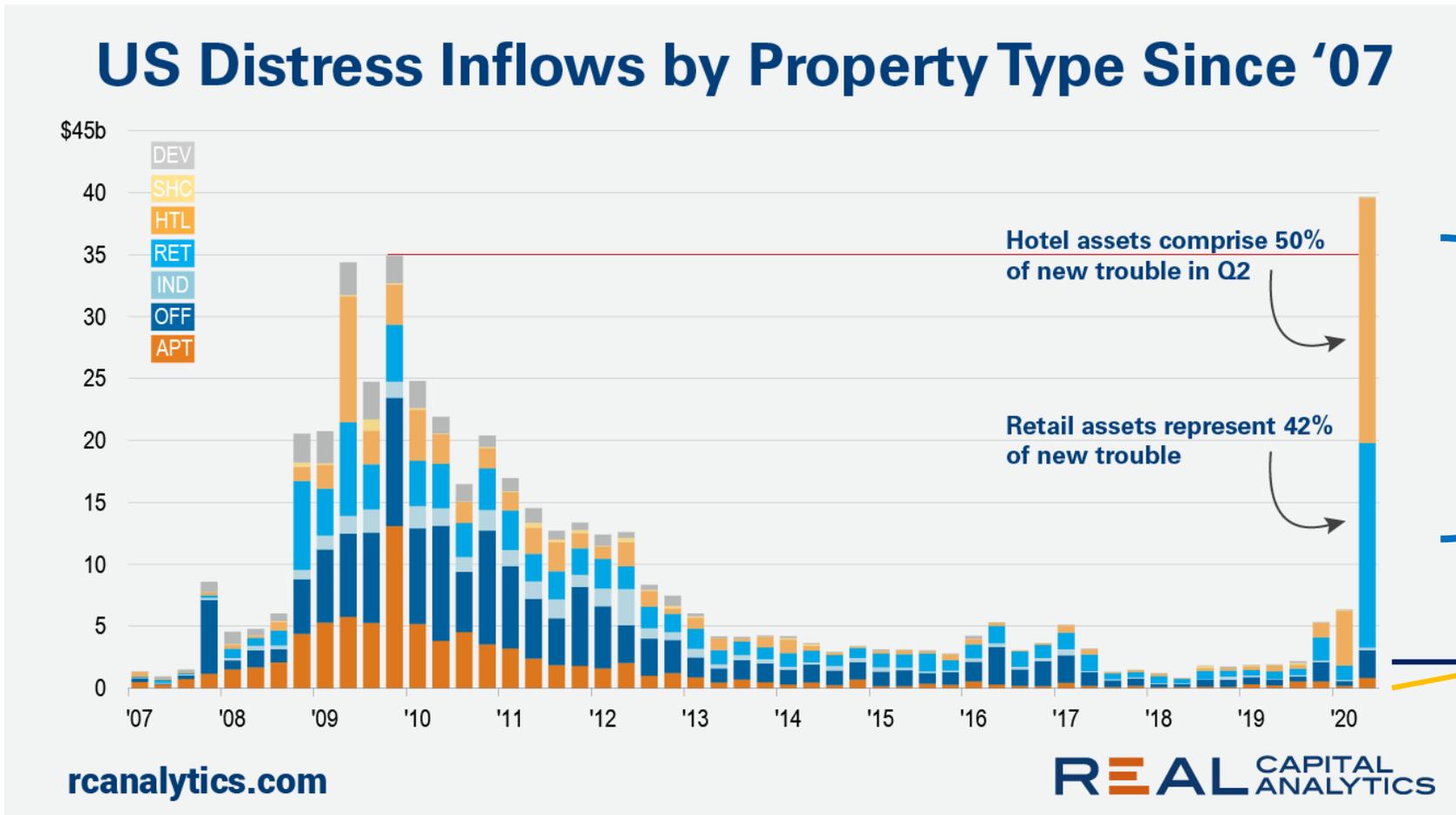
Synovus Credit Market Intelligence

2008 vs. 2020: What Is Different This Time for CRE?

- COVID-19 prompted fast, broad-based policy effort
- Banks Well-Capitalized
- No Housing Crisis
- Technology 2020 vs. 2008
- *This Is a Health Crisis! How Does COVID-19 Attack the Economy?*



We Will Focus on Hotel and Retail



Clearer Diagnosis on Hotel and Retail, But Cause for Concern

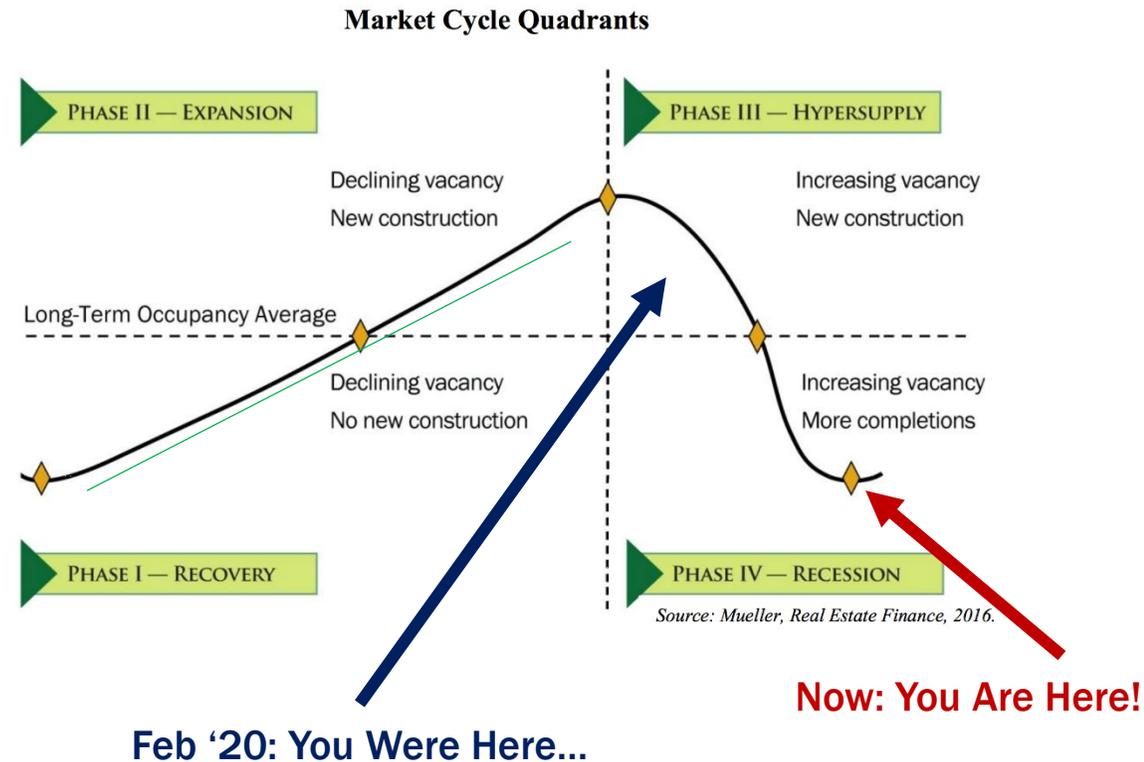
Outlook on Office and Multifamily More Opaque, But Less Worrisome

Hotel Sector

- COVID-19 Attack Strategy?
 - Eliminate Demand
 - Exacerbate Existing Conditions
- Most Affected?
 - Business/Convention Travel
 - Spring Break 2020 Volume
- Where Were We in February?
 - Peak of Cycle or Past Peak
 - 2020-21 Supply Wave in Process
 - Multiple New Formats/Tech Elements
 - Continuing Pressure from AirBNB/VRBO

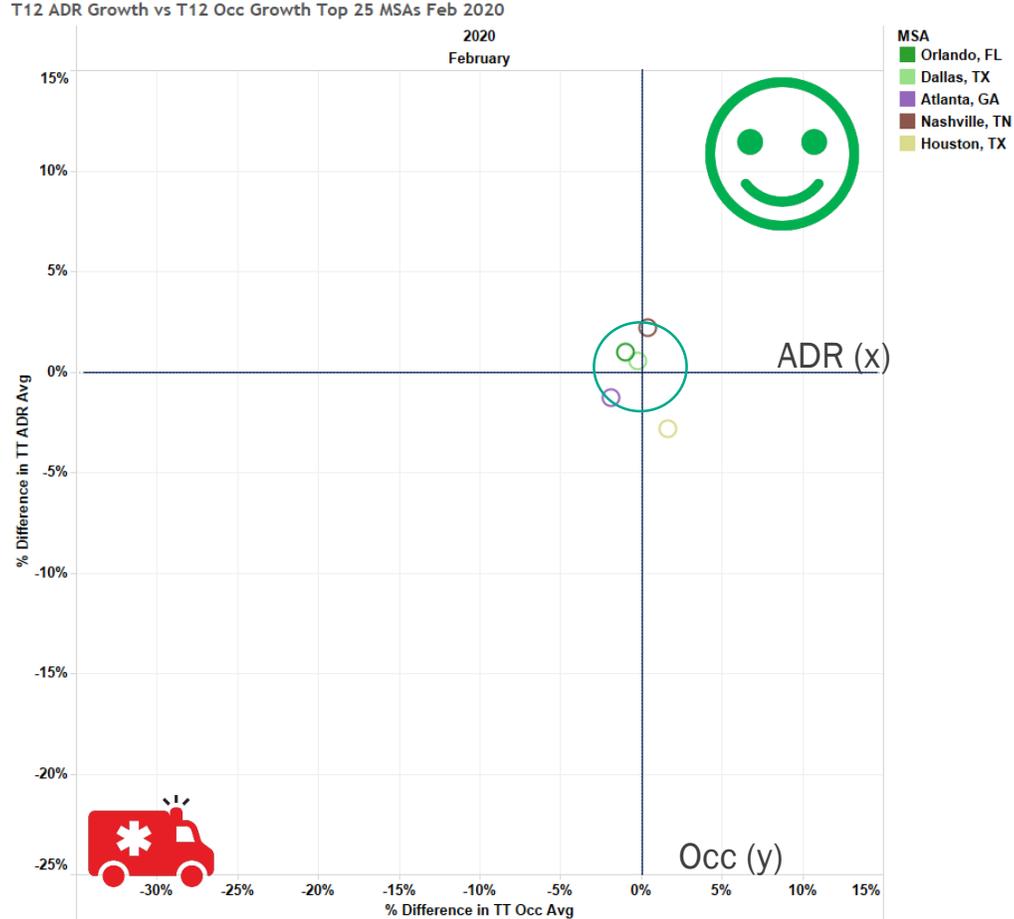
Hotel Market Cycle

$$\text{RevPAR} = \text{Average Daily Rate} \times \text{Occupancy}$$

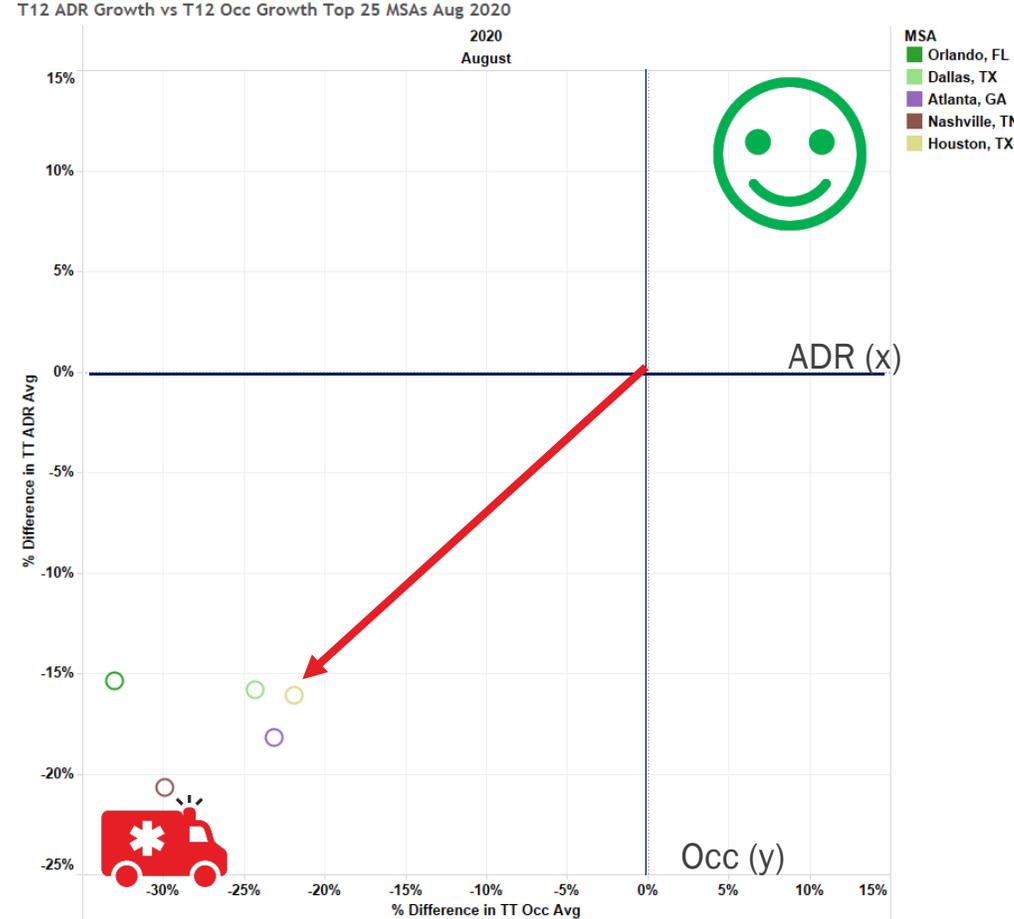


RevPAR = Average Daily Rate x Occupancy

February 2020: Top 25



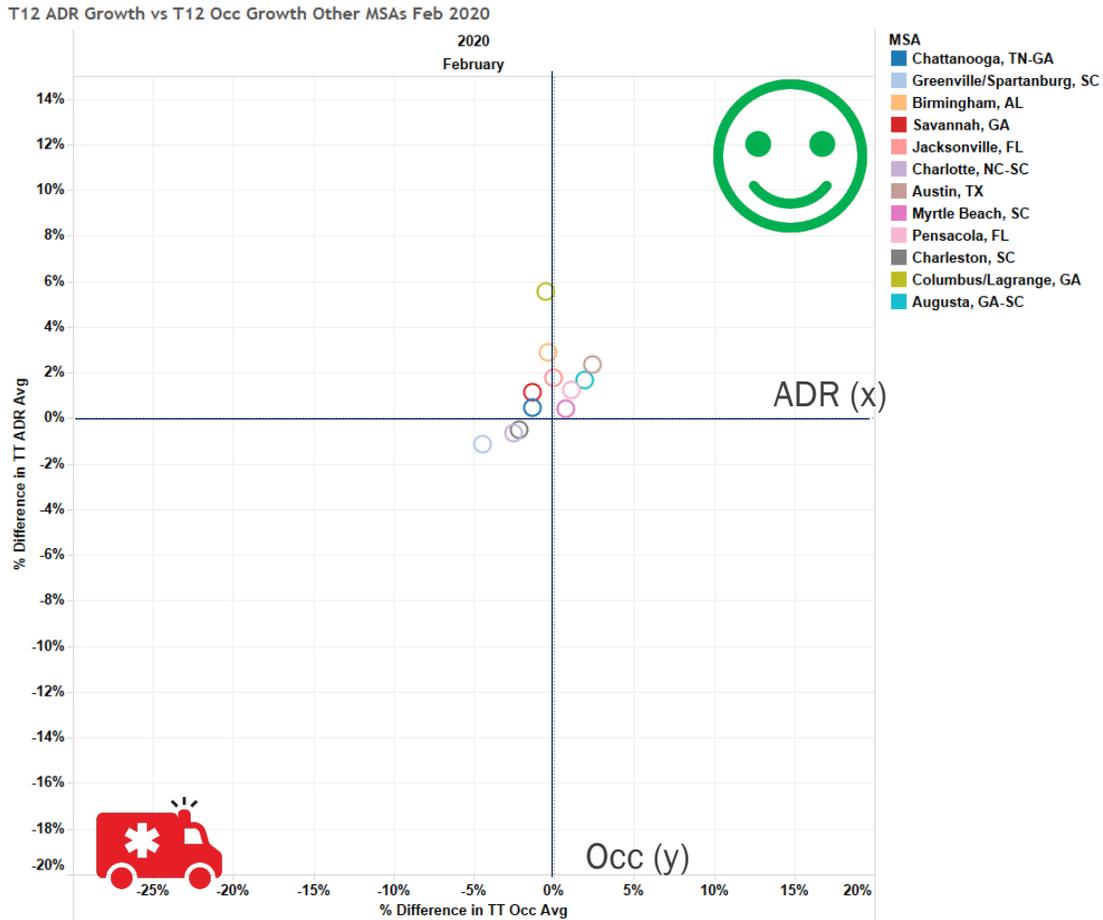
August 2020: Top 25



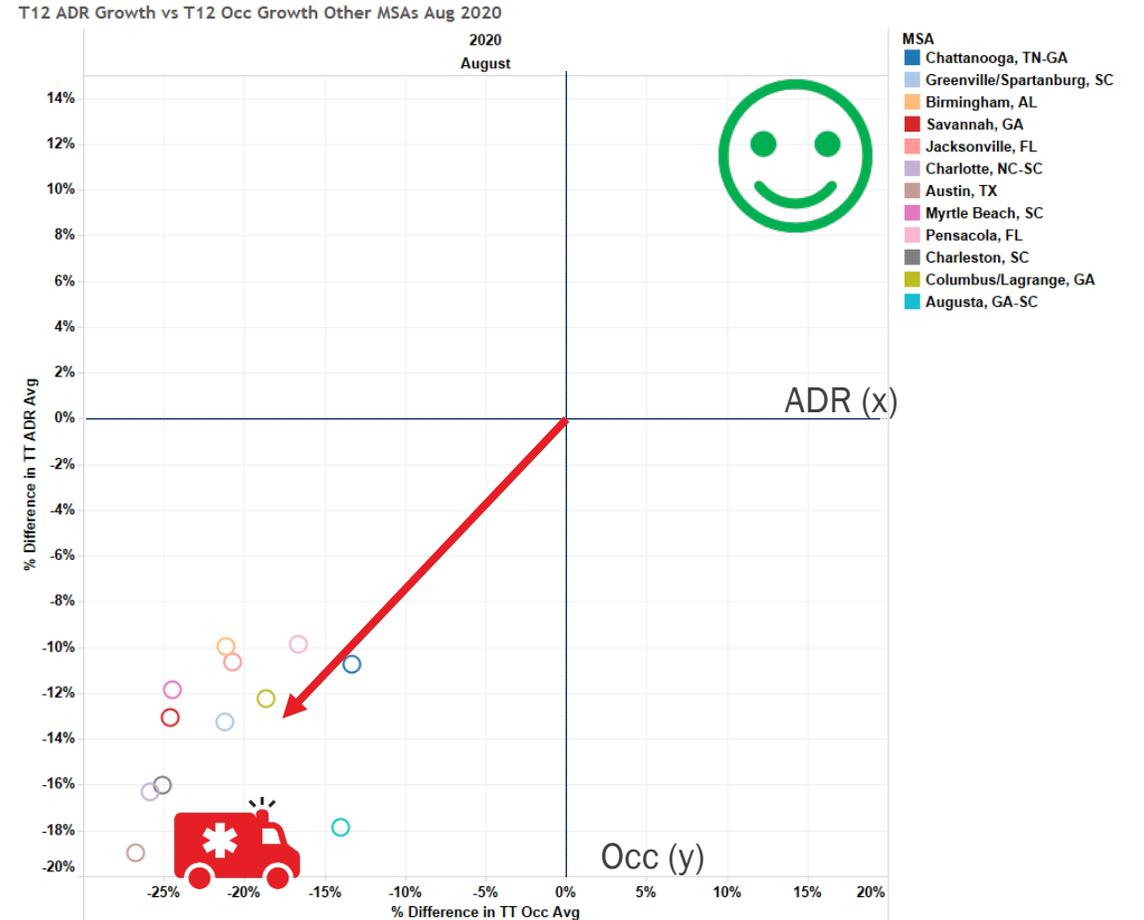
Data Source: Smith Travel Research (STR)

RevPAR = Average Daily Rate x Occupancy

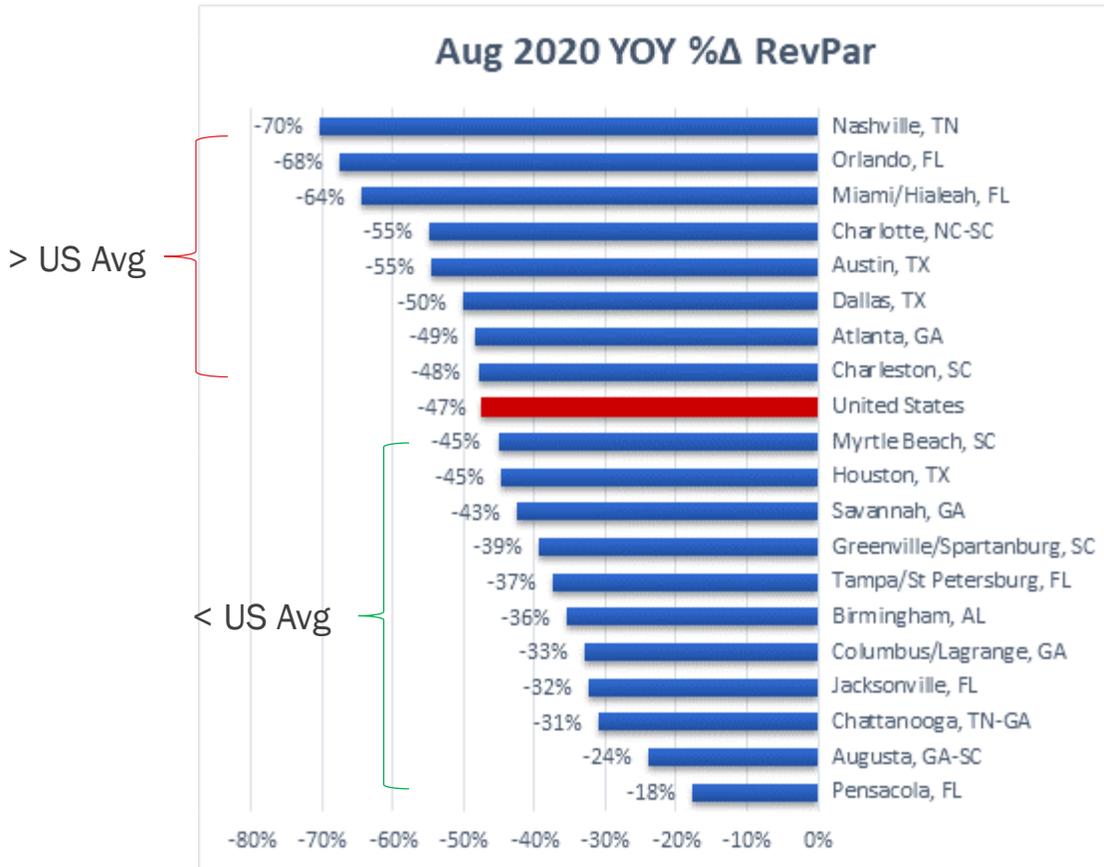
February 2020: Secondary/Tertiary



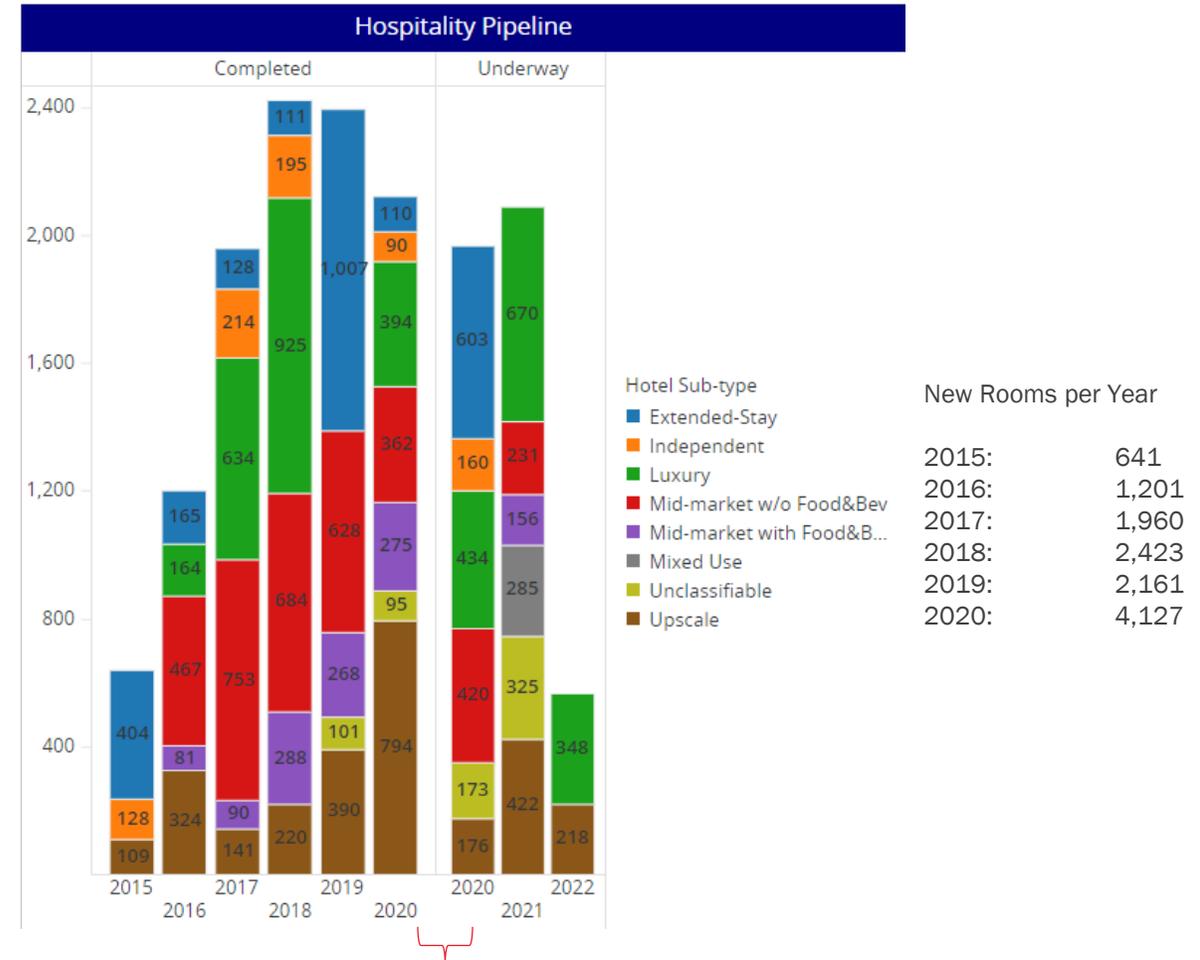
August 2020: Secondary/Tertiary



August YOY % Δ in RevPAR by MSA



Supply Wave Example: Atlanta



Five Year Recovery Forecast from HVS

	Historical		Forecast				
	2018	2019	2020	2021	2022	2023	2024
Occupancy	66.1%	66.1%	43.1%	59.7%	62.9%	64.5%	65.0%
<i>Percent Change</i>		0.0%	-34.7%	38.5%	5.3%	2.5%	0.8%
Average Rate	\$129.97	\$131.17	\$111.61	\$117.45	\$123.42	\$128.36	\$132.21
<i>Percent Change</i>		0.9%	-14.9%	5.2%	5.1%	4.0%	3.0%
RevPAR	\$85.96	\$86.76	\$48.15	\$70.17	\$77.68	\$82.79	\$85.94
<i>Percent Change</i>		0.9%	-44.5%	45.7%	10.7%	6.6%	3.8%

Five years seems to be the dominant forecasted recovery time for the hotel sector

Do You Need Five Years?

Multiple factors, including market location, hotel subsector, brand will affect recovery times

Three to Five Year stabilization periods are being utilized on updated appraisals!

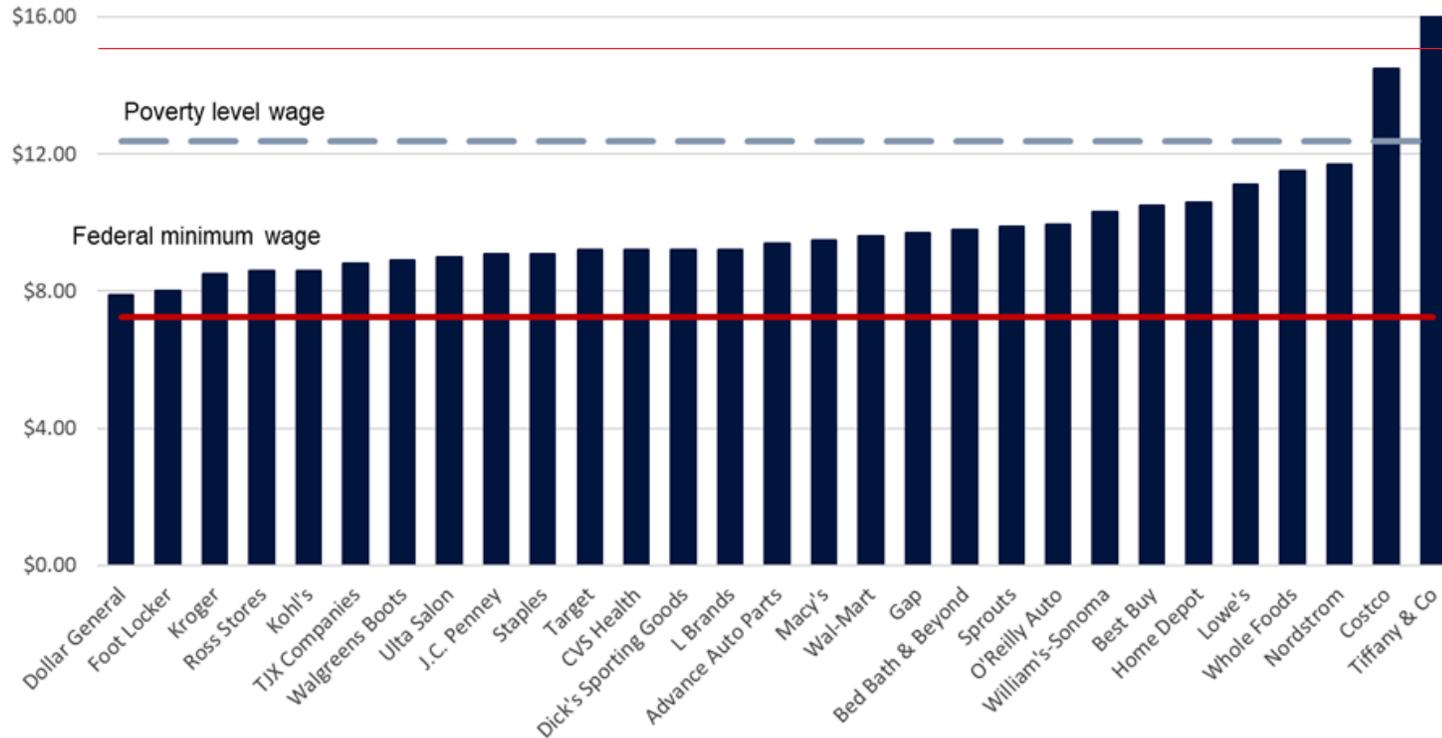
Retail Sector

- COVID-19 Attack Strategy?
 - Eliminate Supply
 - Exacerbate Existing Conditions
- Most Affected?
 - Short Term:
 - Services, Entertainment and Restaurants
 - Longer Term:
 - Big-Box Apparel, Older Chain Full-Serve Restaurants
- Where Were We in February?
 - Projected 12,000 Closures for 2020
 - E-Commerce Challenges: The 3 L's

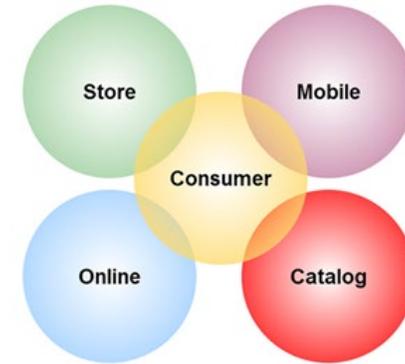


The Three “L’s” Facing Brick and Mortar

Labor



Logistics



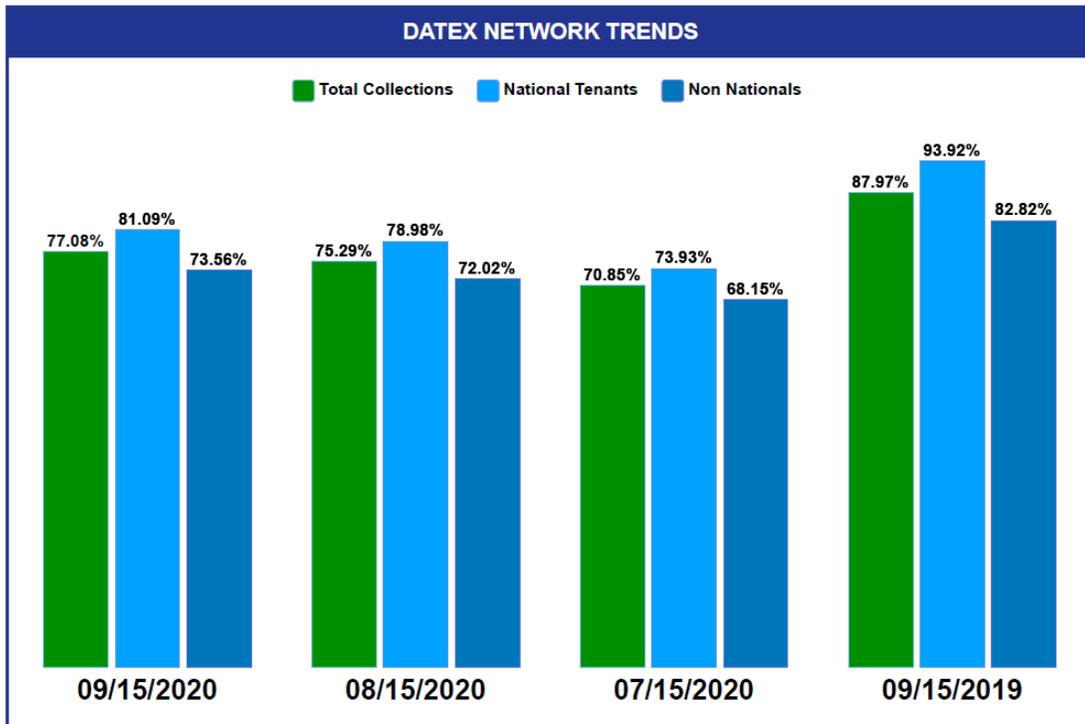
Leverage



\$5,000,000,000!

Vital Signs: Retail Rent Collections 9.15.2020

Datex Tenant Track - Who's Paying Rent & Who's Not (September 15, 2020 Report)



Up from 55% Overall in May 2020

- Three Tenant Tiers in Rent Collections:

- Minimal Impact (85-100% of 2019 Collections)
 - Auto Supplies
 - Grocery/Discount/Warehouse Stores
 - Cellular
 - Quick/Fast Casual Restaurants
 - Health/Drug
 - Home Improvement/Garden
- Moderate Impact (40-70% of 2019 Collections)
 - Trending Up: Services
 - Trending Down: Full Service Restaurants (old format)
 - Surprise (but going back up): “Treasure Hunt” Retail
- Maximum Impact (0-20% of 2019 Collections)
 - Big Box Apparel
 - Mall Stores
 - Movie Theatres/Fitness Centers

Bright Spots in Retail

- *YOY Cash Inflows for Synovus Commercial Customers Are Positive as of August in the Following Retail Categories:*
 - Grocery/Discount Stores/Necessities
 - Health and Drug
 - General Retail Trade
 - Other Services (hair and nail, massage, etc.)
 - Quick Serve and Fast Casual Restaurants
- Record Sales in Leisure Categories
 - Boat Sales +30% YOY
 - Used Boat Sales +70%
 - R/V Sales +10% YOY
 - Home Improvement Project Starts +60%
 - Average Project Cost = \$1,500

S&P 500 vs. Restaurant Index vs. Leisure Index



Restaurant and Leisure Indices Are Performing Above the S&P 500 Index and Their Pre-COVID-19 Levels

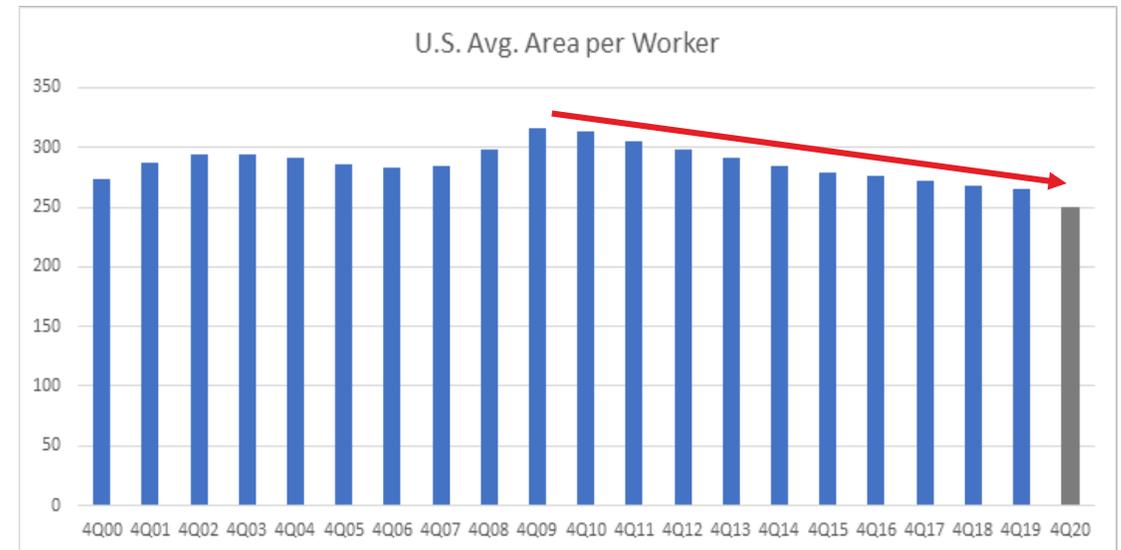
Challenges from E-Commerce and the Three L's Are Not Going Away!

Office Sector

- COVID-19 Attack Strategy?
 - Eliminate Demand
 - Impair Supply (Economic Obsolescence)
 - Exacerbate Existing Conditions
- Most Affected?
 - Symptoms Slow to Develop
 - Most Likely: CBD Office and Vintage Product
- Where Were We in February?
 - Corporations gearing up for potential recession
 - Office Area per Worker Declining
- *Most Challenging Sector to Pin Down!*

Data Source: CoStar, BLS.gov

Office Area (Square Feet) per Worker



Does Work-from-Home Affect Office Demand?
Will There Be a Flight to the Suburbs?

Technology Effect on Office

REPLACED BY MORE OBSOLETE BY PHONE

- Complete Index 396-397
- Delivery Service Rates 395
- Repair Service 5
- Telephones 7-71**
 - Answerers 26-27
 - Answerer/Phone Combos 22-25
 - Basic, Decorator Phones, Accessories 36, 38-45, 47
 - Caller ID Displays 28-29
 - Caller ID/Phone Combos 9-12, 30-32
 - Cellular and PCS Phones and Accessories 54-70
 - Cellular Phones and Accessories 9-19, 22-23
 - Headsets and Headset Phones 20-21, 39
 - Headset Cordless Phone 19
 - Intercoms 51
 - Multi-line and Business Phones 32-34
 - Pagers, Paging System and Accessories 52-53
 - Satellite Phone and Cellular Phone/GPS Combo 71
 - Speakerphones 9, 10, 16, 30, 32, 35
 - Sprint® Services 7
 - Sprint® Prepaid Calling Cards 7, 13
 - Text Phones (TDD/TTY) 37
- Communications 72-95**
 - Amateur Radio 75-77
 - Antennas 76-80, 88-89
 - Business 2-Way and Handheld Radios 78-79
 - CB Radios and Accessories 82-89
 - CB Walkie-Talkies 82-83
 - Marine VHF 2-Way Radios 86
 - Scanner Radios and Accessories 90-95
 - Shortwave *had to check* 80
 - 2-Way Personal Radios 72-74
- Audio 96-166**
 - Adapters, Cords, Jacks, Plugs 142-149
 - Boom Boxes and Large Portables 107-109, 111
 - Cassette Decks 124
 - Cassette, Optimus & Walkman® Portables 100-101
 - Headset Radios 118
 - Headset Chargers 122-123
 - CD Players, Portable 110
 - Car Radios 112, 114-115
 - DJ Equipment and Accessories *pad* 156-166
 - Headphones and Accessories 102-107
 - Headset Radios 118
 - Home Stereo Systems by RCA 119
 - Home Theater System 125
 - Movietv Stereos and Radios 108, 116-117, 118
 - Phono Cartridges and Stylus (Needles) 150-155
 - Public Address and DJ Equipment 156-166
 - Radios, Boomboxes and Portables 108-118
 - Receivers, Home Theater and Stereo 120-121
 - Recorders, Cassette, Digital & Microcassette 96-100
 - Recording Tape 138
 - Speakers and Accessories 126-137
 - Turntables 123, 161
- RadioShack.com & RadioShack Unlimited 5**
- Quantity Discounts 395**
- Service Plans 395**
- Video 167-197**
 - Antennas and Installation Accessories 185-197
 - Camcorders by RCA and Accessories 177
 - DVD Players and Movies *NETFLIX/AMV* 179
 - Mounts for TV/VCR 180-181
 - Recording Tape and Accessories 176
 - Remote Controls ***** 184
 - Room-to-Room Wireless Links *DIRECTV* 182
 - Satellite TV Systems and Accessories 168-171
 - Security Cameras, Systems 256-258
 - Selectors, Audio/Video and S-Video 183
 - VCRs and VCRs 172-175, 178
- Do-It-Yourself 198-249**
 - Adapters, RF-Plug 197-198
 - Adhesives and Tapes 205
 - Books 216, 394
 - Data Loggers and Data Acquisition 215
 - Chemicals and Cleaners 208
 - Displays, Panel-Mount 214
 - Electronic Parts and Enclosures 216, 220-249
 - Kits, Solder-Type 218-219
 - Power Supplies and Inverters 213
 - Solar Power Products and Kits 217
 - Soldering Irons and Supplies 206-207
 - Test Equipment 209-212, 214
 - Tools 203-204, 207
 - Wire and Cable 145, 200-201
 - Wire Management and Connectors 199
- Security & Home 250-261**
 - Alarms 251-255
 - Electrical Timers 253
 - Home Automation 253, 259-261
 - Video Security 256-258
 - Wireless Security 251-253
- Calculators 262-275**
 - Data Organizers 262-265 *ABC*
 - Desktop and Printing Calculators 269-270
 - Electronic Books, Dictionaries 271-272 *PDF!*
 - General-Purpose Calculators 270
 - Language Translators 272-274
 - Scientific and Graphic Calculators 266-267
 - Special-Purpose Calculators 268-269
 - Spell Checkers 273
 - Typewriters and Desktop Publishers 275
- Computers 276-295**
 - Cables, Connectors, Adapters & Tools 288-293
 - Compaq Creative Learning Series PCs 276-280
 - Compaq Notebooks, Palmtops & Accessories 281
 - Diskettes, CD and Tape Storage 292
 - Dust Covers and Accessories 282-283, 286
 - Mice, Joysticks and Accessories 284, 293
 - Monitors and Accessories 282
 - Multimedia Speakers and Microphones 282, 285
 - Printers, Accessories & Supplies, 283-284, 286-287
 - Surge and Power-Outage Protection 294-295
 - USB (Universal Serial Bus) Connections 291
- Time, Weather & More, 296-309**
 - Binoculars and Telescopes 304-307
 - Clocks and Watches 296-299
 - Metal Detectors 303
 - Bedometer and Stopwatches 299
 - Thermometers 296, 300-301
 - Timers 296
 - Weather Station 308
 - Voice Memo Recorders 302
 - Weatheradios 309
- Just for Fun 310-323**
 - Electronic Chess and Other Games 314-315
 - Karaoke (Sing-Along) 312-313
 - Preschool and Children's Products 316-317
 - Musical Keyboards 310-311
 - Project Labs and Science Fair® Kits 323
 - Radio-Controlled Toys *can simulate* 317-323
- Automotive *can simulate* 324-337**
 - AM/FM Stereo Cassette Players 325
 - AM/FM Stereo CD Player and Changer 324
 - Amplifiers and Equalizers 326-327
 - Antennas 327
 - Audio Installation Accessories 332-333
 - DC Adapters, Cords, Power Inverters 334-335
 - GPS Global Positioning Systems 337
 - Radar/Laser Detectors and Accessories 336
 - Speakers 328-331
- PowerZone™ Batteries, Lights and Power 388**
 - AC and DC Adapters, Accessories 380-383
 - Batteries 389-376

- Especially Impactful on Medical Space



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2000 Radio Shack Catalog: What Is Obsolete?

Conventional Wisdom Scenario

Less Space Demanded:

- Proximity is a dirty word
- Functional Obsolescence
- No more “bench seating”
- Migration away from CBD

Alternate Scenario

Same (More?) Space Demanded:

- Proximity is a dirty word so:
- More Work at Home BUT
- Functional Obsolescence
- No more “bench seating”

- *Some people want to be at the office!*
- *If someone tells you they have office pegged...*

Multifamily Sector

- COVID-19 Attack Strategy?
 - Impair Demand/Growth via Job Loss
 - Exacerbate Existing Conditions

- Most Affected?
 - Properties in Stabilization
 - Conflicting Signals Class A vs. Class C
 - CBD/Urban Units Showing Weakness

- Where Were We in February?
 - Potential Oversupply in Some Markets
 - Significant Shortage of Workforce Housing
 - Challenges to Home Ownership Still Exist

Be Careful with Collection Results!

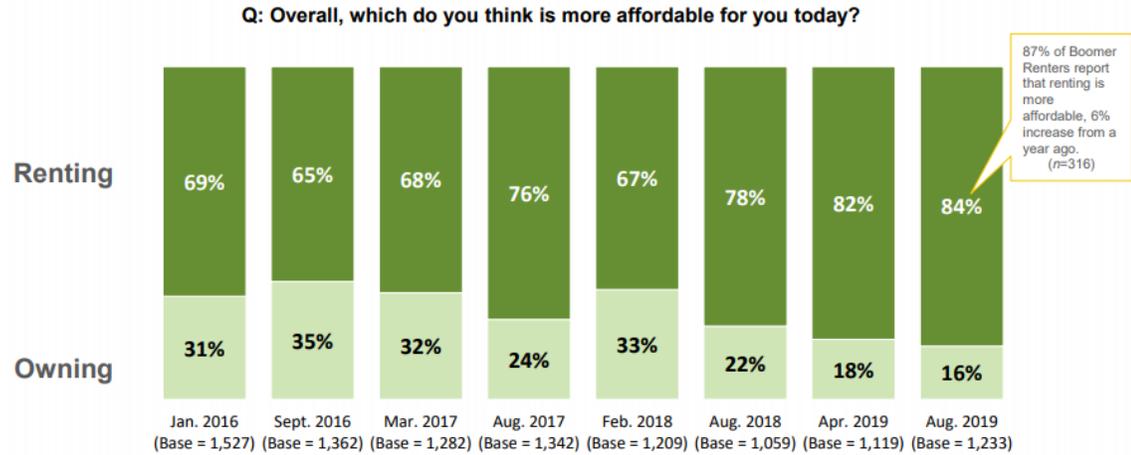
Rent Payment Tracker: Full Month Results

**Data collected from 11.1 - 11.5 million apartment units each month



What Are the Data Sources?
 Only 2% Drop? 2% of 11.5mm = 287,500 units

Perception is Reality



By Renter Demographics **% Who Say Renting is More Affordable | August 2019**

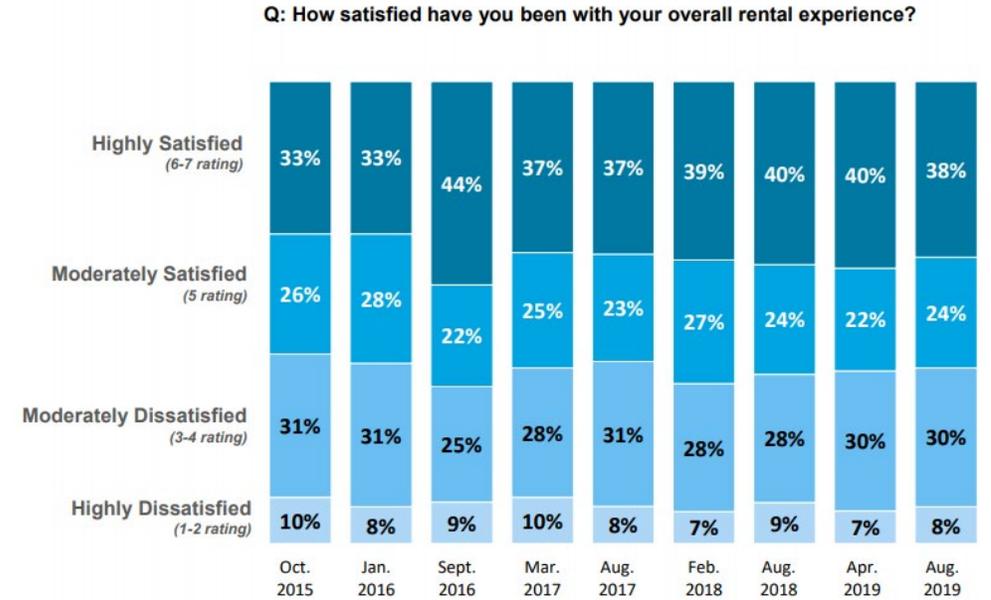
Male	Female	Urban	Suburban	Rural	Northeast	South	Midwest	West	Younger Millennial	Older Millennial	Gen X	Boomer	Multi-family	Single-Family	Very Low Income	Low Income	Middle Income	First-time Buyer
85	82	84	84	82	87	82	83	83	85	80	82	87	85	82	90	85	79	62

(Base = 1,233 Total Renters)
*Sample size for High Income Renters too small to report

© Freddie Mac 2

2019 August The Harris Poll Consumer Omnibus Results
Custom Report Created by Freddie Mac

Why Move If You Are Happy?



↑ Difference is statistically significant. (Base = 1,233 Total Renters)

2019 August The Harris Poll Consumer Omnibus Results
Custom Report Created By Freddie Mac

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Case for Continued Demand

- Millennials Moving to Suburbs?
 - Inability to save down payment
 - First-time Home is different now
 - Student debt levels still a factor
 - Learning that child care is as expensive as housing
- Potential First-Time Homeowners (Gen Z)
 - Negative job climate
 - Student debt
 - Inability to establish credit
 - Negative viewpoint towards ownership
 - Inability to save down payment

Survey of Recent College Graduates:

“Who Can Afford a Down Payment?”



Summing It All Up...

- This Recession Is Totally Different!
- Hotel Fates Will Be Judged By Prudence
- Retail Essentially Matured Three Years in Six Months
- Impact to Office Sector Will Take Longest to Manifest
- Multifamily Drivers Look Strong

- Most Devastating Effect: COVID-19 As an Accelerant
 - *Consider the Timing!*

Questions and Answers?

Contact Us:

- Cal Evans – CalEvans@Synovus.com
- Brooke Blackwell – BrookeBlackwell@Synovus.com

A modern, multi-story apartment building with a mix of grey, white, and brown facades. The building features numerous balconies with glass railings. In the foreground, there is a well-maintained courtyard with green grass, several young trees, and concrete planters. The sky is clear and blue. The text 'SYNOVUS® the bank of here' is positioned in the top right corner, and 'Thank you for attending' is centered in the middle of the image.

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