

Commercial Real Estate

# Insights from Synovus – Business Webinar Series

October 7, 2020

## Moderator



**Cal Evans**

Credit Market Intelligence

## Panelists



**Rich McCarey**

Executive Director of Commercial Real Estate



**Jennifer Molnar**

Senior Director of Commercial Real Estate



**Tyler Hudson**

Senior Director of Commercial Real Estate



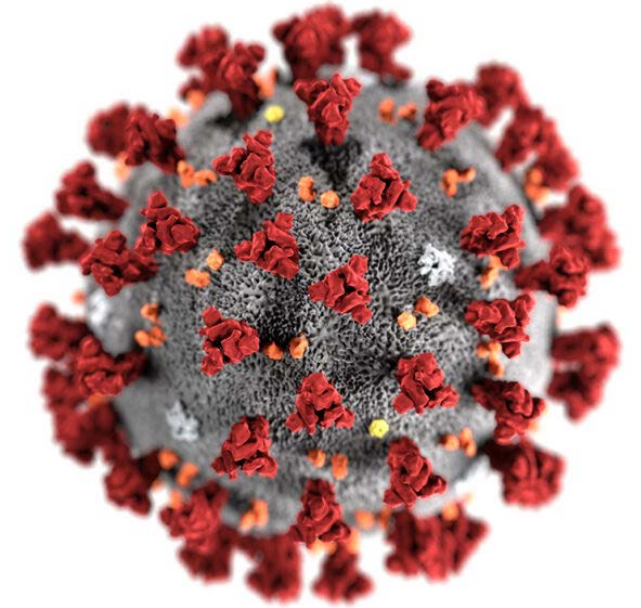
**Jim Farrar**

Chief Credit Officer

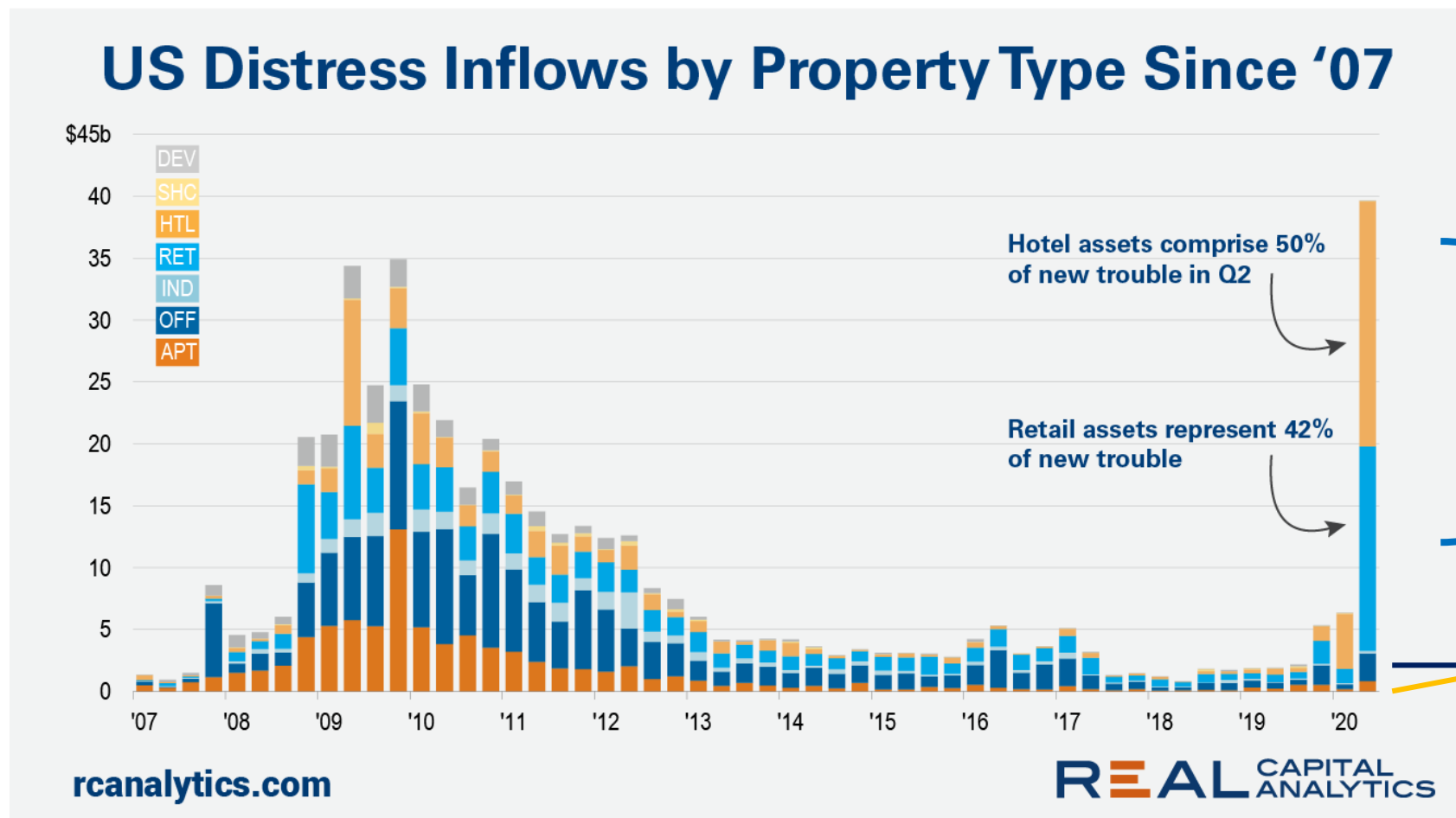


## 2008 vs. 2020: What Is Different This Time for CRE?

- 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?*



## Focus on Hotel and Retail



Clearer Diagnosis on Hotel and Retail, But Cause for Concern

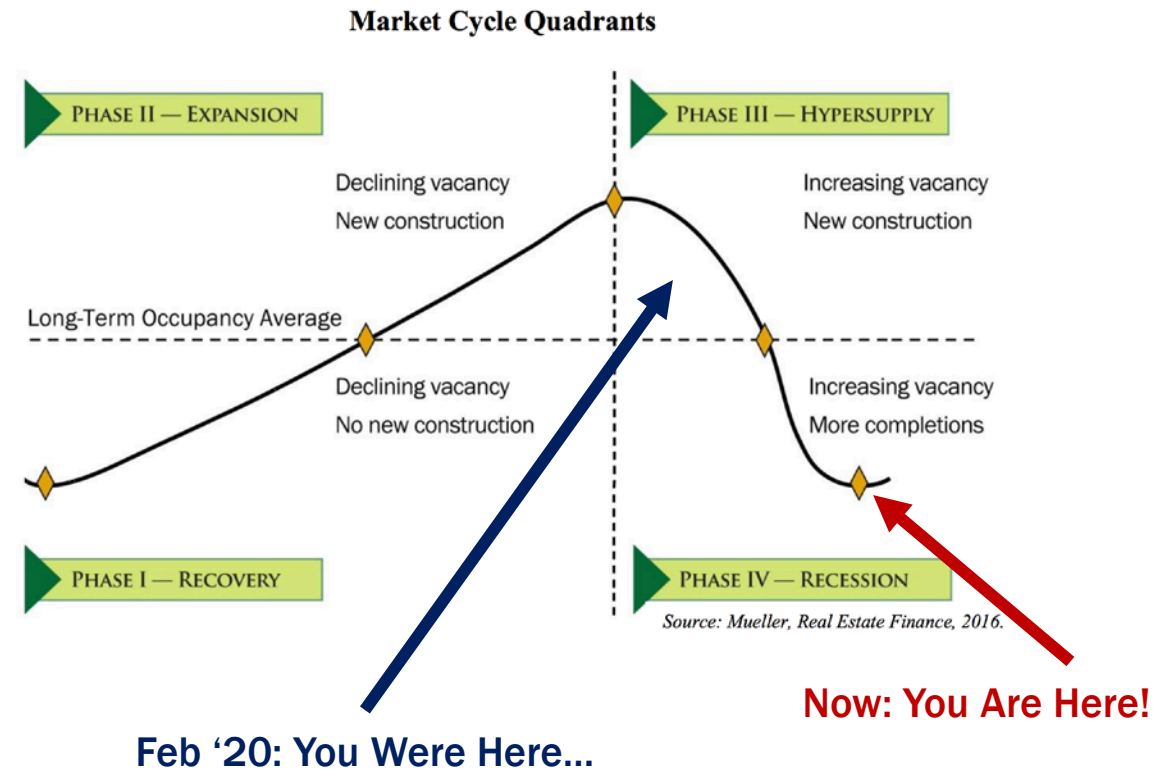
Outlook on Office and Multifamily More Opaque, But Less Worrisome

# Hotel Sector

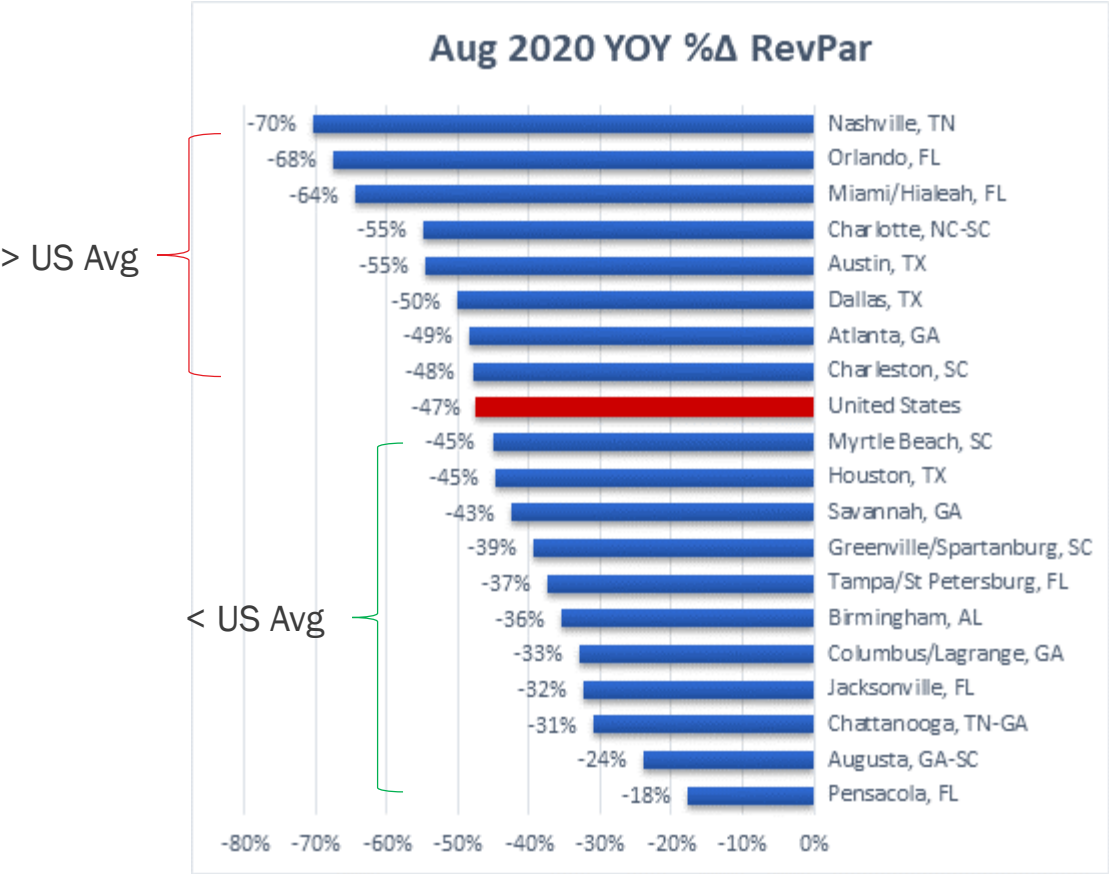
- COVID-19 Attack Strategy?
  - Eliminate Demand
  - Exacerbate Existing Conditions
- Most Affected?
  - Business/Convention Travel
  - Spring Break 2020 Volume
- Where Were We in February?
  - Peak of Cycle or Past Peak
  - 2020-21 Supply Wave in Process
  - Multiple New Formats/Tech Elements
  - Continuing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

## Hotel Market Cycle

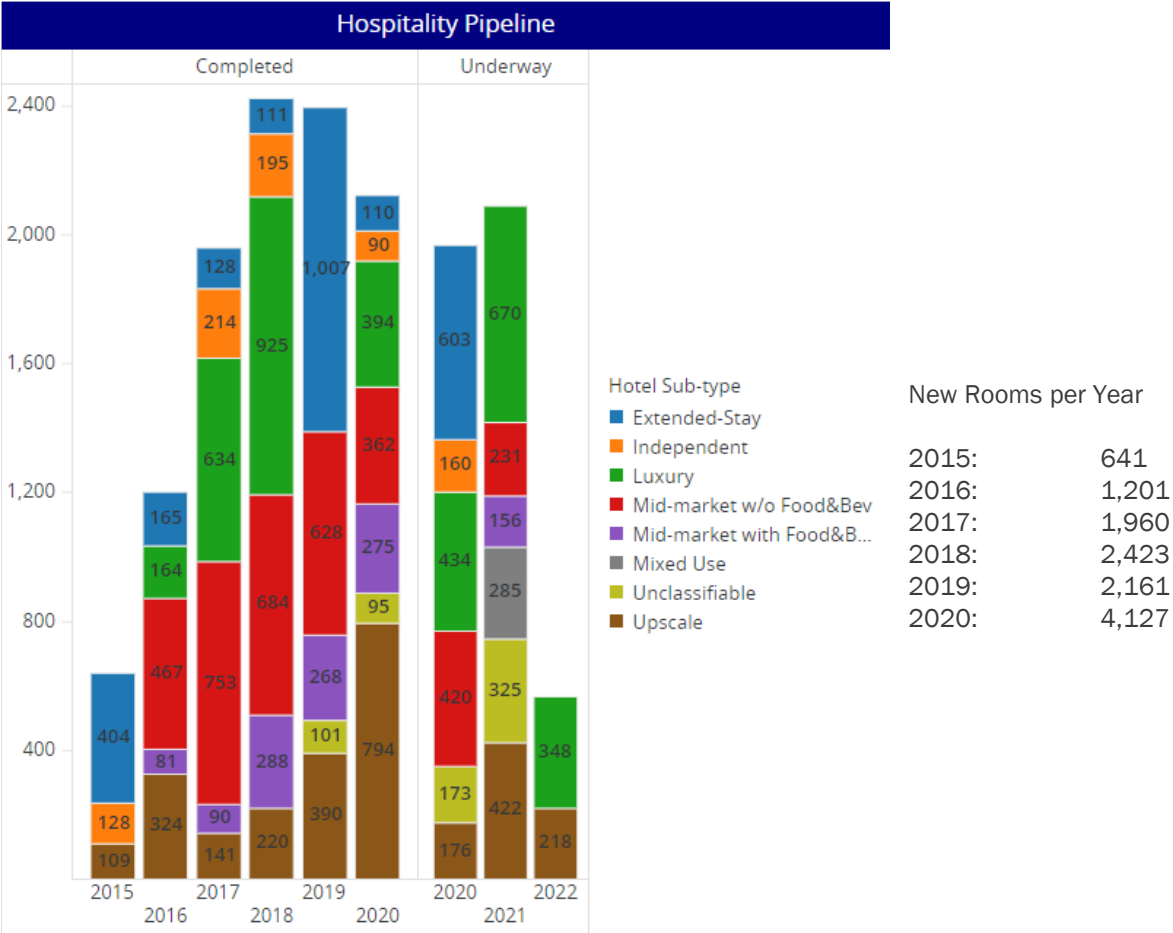
**RevPAR = Average Daily Rate x Occupancy**



## 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

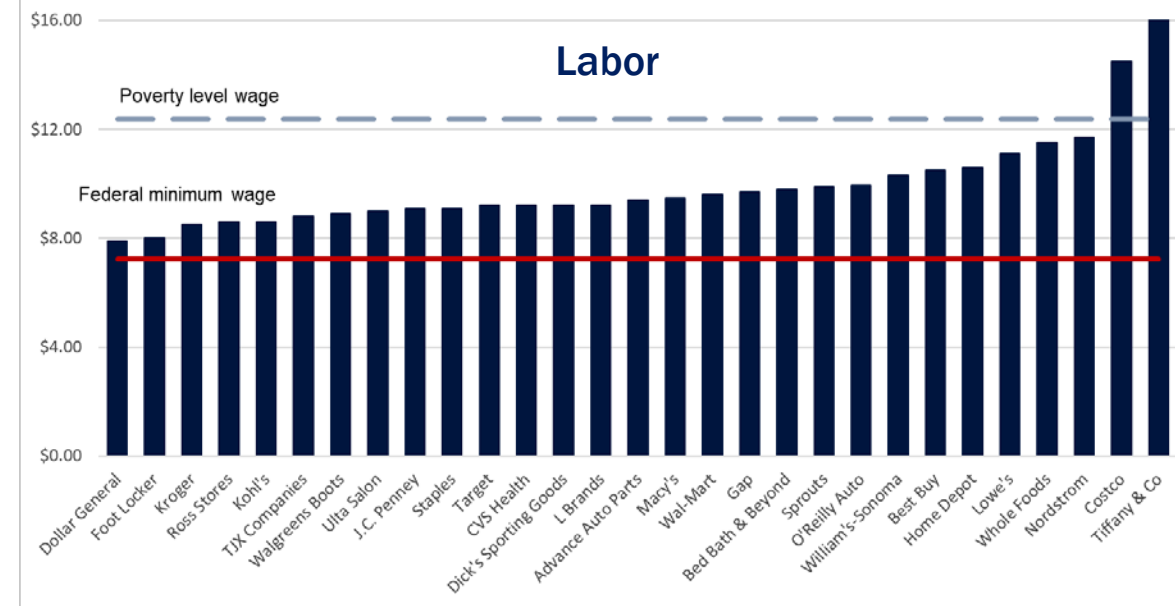
Multiple factors, including market location, hotel subsector, brand will affect recovery times

*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



## Logistics



## Leverage

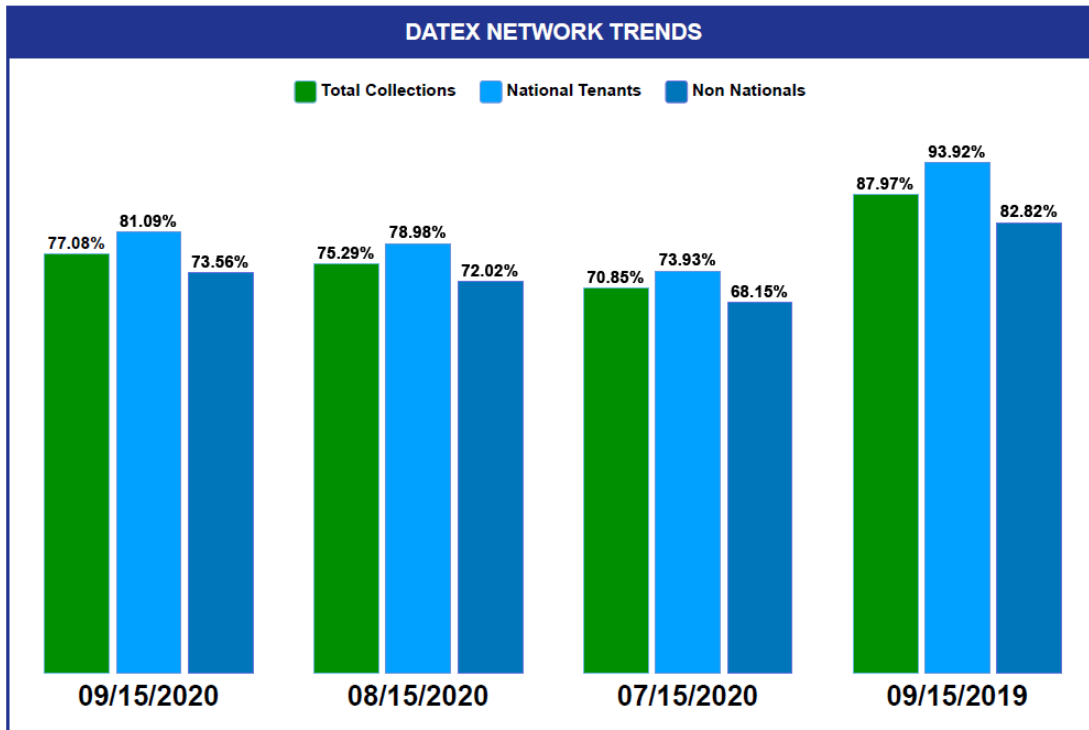


\$5,000,000,000!



## 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!*

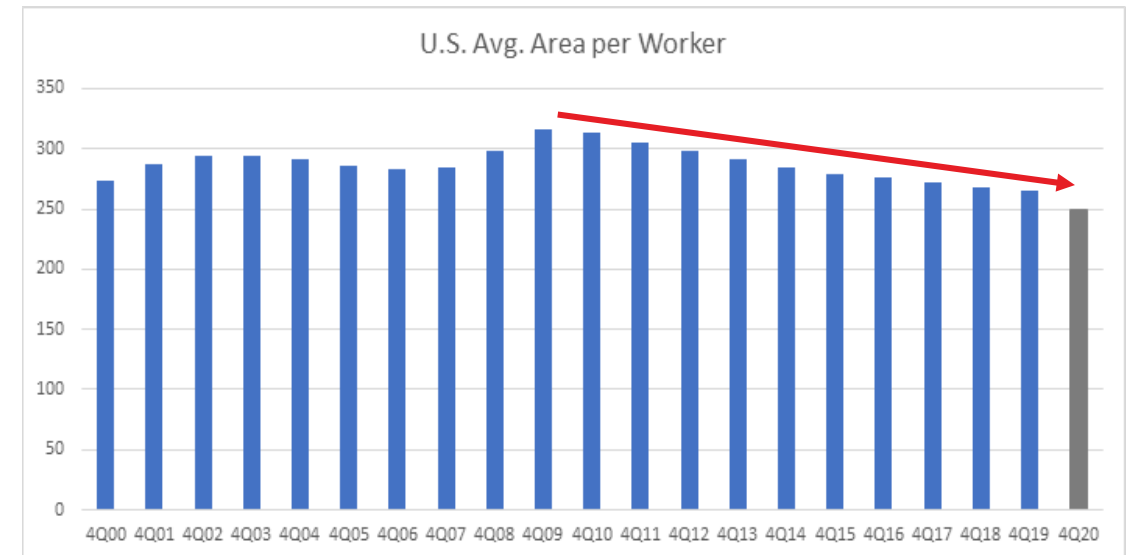
# Office Sector

- 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?

# Multifamily Sector

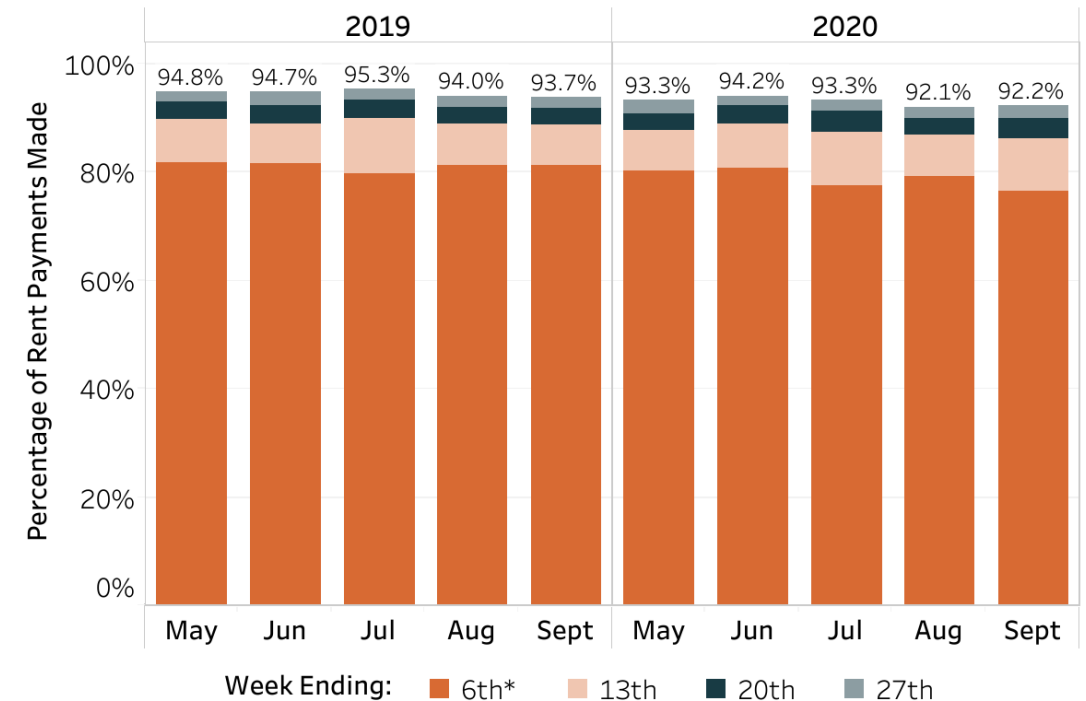
- COVID-19 Attack Strategy?
  - Impair Demand/Growth via Job Loss
  - Exacerbate Existing Conditions
- Most Affected?
  - Properties in Stabilization
  - Conflicting Signals Class A vs. Class C
  - CBD/Urban Units Showing Weakness
- Where Were We in February?
  - Potential Oversupply in Some Markets
  - Significant Shortage of Workforce Housing
  - Challenges to Home Ownership Still Exist

Data Source: National Multifamily Housing Council

## Be Careful with Collection Results!

### Rent Payment Tracker: Weekly Results

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



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



## 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
  - Inability to establish credit
  - Negative viewpoint towards ownership
  - Inability to save down payment

### Survey of Recent College Graduates:

***“Who Can Afford a Down Payment?”***



## Contact Us:

- Cal Evans – [CalEvans@Synovus.com](mailto:CalEvans@Synovus.com)
- Rich McCarey – [RichMcCarey@Synovus.com](mailto:RichMcCarey@Synovus.com)
- Jim Farrar – [JimFarrar@Synovus.com](mailto:JimFarrar@Synovus.com)
- Tyler Hudson – [TylerHudson@Synovus.com](mailto:TylerHudson@Synovus.com)
- Jennifer Molnar – [JenniferMolnar@Synovus.com](mailto:JenniferMolnar@Synovus.com)

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A modern, multi-story apartment building with a mix of white, grey, and reddish-brown facades. The building features numerous balconies with glass railings. In the foreground, there is a landscaped courtyard with green grass, young trees, and concrete planters. A paved walkway leads through the courtyard. The sky is a clear, pale blue.

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**Thank you for attending**