

What to Expect in 2021  
Economist & Futurist KC Conway

Tuesday January 12, 2021 - Noon - 1:00 pm  
Register at [www.acg.org/raleighdurham](http://www.acg.org/raleighdurham)



KC Conway  
Red Shoe Economics, LLC

ACG Raleigh Durham

ACG Piedmont Triad Network

Association for Corporate Growth

ACG RALEIGH/PIEDMONT - TUESDAY JANUARY 12, 2021

**WHAT'S UP FOR 2021?**

Yogi Berra said "The Future Ain't What it Used to Be", and after 2020, who could disagree? One thing is for sure, 2021 cannot be "deja vu all over again!"

**Will 2021 be the Year of Yogi?** The year when Berra-isms make economic sense?



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# Disclaimer: Not in fine print...



## ACG Raleigh/Durham NC Chapter: What's up for 2021? January 12, 2021

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# Jan 2020 (Pitcher Influences) Vs 2021 (The Year of Yogi)



Although 2021 has started off much like 2020 ended, 2021 and the second-leg of the pandemic will be as different from the first-leg as CY 2020 was compared to CY 2019.

The late Yogi Berra had a number of “Berra-isms” that could best characterize 2020 and forecast 2021. Perhaps the Yogi Berra inspired epithet for 2020 should be:

**“It ain’t over until it’s over.”**

This Berra-ism encapsulates the pandemic, November 2020 elections, Federal Reserve QE, unemployment, and even the record rise in the stock market. Will any or all of these be over in 2021? We will see.

And perhaps a fitting 2021 outlook is encapsulated in one of the most memorable Berra-isms of all time:

**“The Future ain’t what it used to be.”**







# 3<sup>rd</sup> Opening Perspective - Where else is the Middle Market?

December 1, 2016  
National Center for the Middle Market celebrates five years of impact



In 2011, Fisher College of Business partnered with GE Capital to create the National Center for the Middle Market (NCMM), a first-of-its-kind research center focused solely on researching and supporting middle market firms, the true drivers of the U.S. economy.



2Q 2020

## MIDDLE MARKET INDICATOR

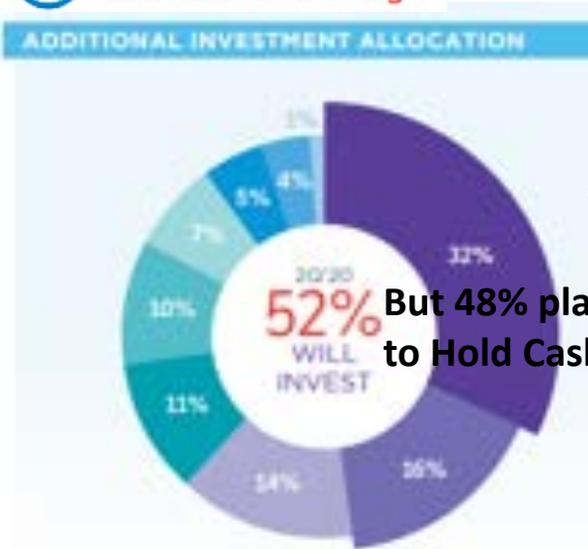
### NATIONAL CENTER FOR THE MIDDLE MARKET

**Revenue Growth**  
*Executives predict modest growth*



Mid-Mkt Revenue Impact 2020 less than S&P 500

**Capital Investment**  
*Caution remains high*



**Likelihood of Business Impact over the Next Six Months**  
*Percentage of companies responding that impact is extremely or very likely*

	TOTAL MIDDLE MARKET	BUSINESS SERVICES	MANUFACTURING	WHOLE-SALE TRADE	RETAIL TRADE	CONSTRUCTION	FINANCIAL SERVICES	TECHNOLOGY*	HEALTH CARE
DELAYING PLANNED INVESTMENTS	39%	43%	29%	27%	44%	30%	37%	27%	54%
DISRUPTION OF WORK	38%	43%	26%	40%	34%	20%	32%	40%	48%
LAYOFFS	32%	34%	23%	31%	32%	22%	27%	27%	42%
RAW MATERIALS/SUPPLIES SHORTAGES	25%	21%	28%	36%	19%	20%	11%	25%	34%
CORPORATE RESTRUCTURING	22%	23%	15%	26%	22%	17%	16%	21%	30%
CASH PROBLEMS	21%	23%	18%	16%	20%	14%	12%	21%	35%

<https://fisher.osu.edu/news/national-center-middle-market-celebrates-five-years-impact#:~:text=In%202011%2C%20Fisher%20College%20of%20Business%20partnered%20with,firms%2C%20the%20true%20drivers%20of%20the%20U.S.%20economy.>

# AMERICA'S

★★ *Economic Drop* ★★

## COVID-19's Impact on GDP in the US

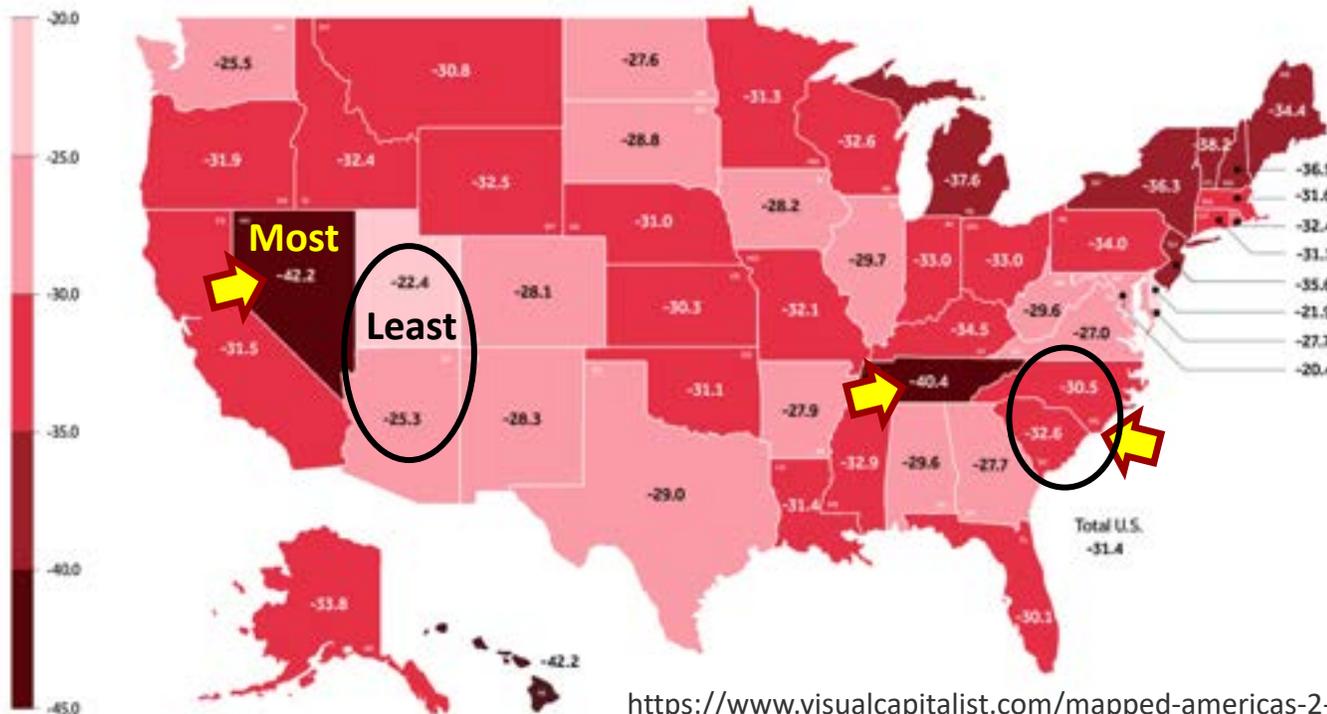
Amid continued COVID-19 uncertainty, total U.S. GDP (annualized) contracted by over \$2 trillion in Q2.

Q1 2020 **\$21.6T** ▼ **\$19.5T** Q2 2020

Here's a look at how each state contributed to this decline, and which industries were hit the hardest.

### Change in Real GDP by State

% change between Q1-Q2, 2020



### GDP Change:

**Short Term** - Least affected has been UT and AZ (-22%-25%). Iowa nearly as well at -26%

**Worst** has been in the Northeast and West. **NV and TN** have had the greatest declines in GDP of >40%. Both NV and TN are L&T dependent.)

NC is not as bad as you might have thought (Down <30%)

**Long Term** - Does workforce, business, and entertainment return to the Northeast and West or does it rebuild in less dense, more affordable, and pro-business inland, pro-business and affordable states with skilled workforce, and low taxes – like Texas

<https://www.visualcapitalist.com/mapped-americas-2-trillion-drop-q2-by-state-and-sector/>

# Transportation Metrics: TSA Passenger Count, Rail Traffic & Ports

## TSA checkpoint travel numbers for 2020 and 2019

This page will be updated by 9 a.m. daily. ([Back to Coronavirus \(COVID-19\) information](#))

Date	Total Traveler Throughput	Total Traveler Throughput (1 Year Ago)
11/30/2020	981,912	2,591,470
11/29/2020	1,176,091	2,882,915
11/28/2020	964,630	2,648,268
11/27/2020	820,399	1,968,137
11/26/2020	560,902	1,591,158
11/25/2020	1,070,967	2,624,250
11/24/2020	912,090	2,435,170
11/23/2020	917,354	2,254,188
11/22/2020	1,047,934	2,321,546
11/21/2020	984,369	2,194,291
11/20/2020	1,019,836	2,550,459
11/19/2020	907,332	2,428,095

**Still only at 30%-40% pre-COVID traffic.**

**What do airline bankruptcies mean in Q1 2021 after CARES Bill employee retention requirements ended Q3/Sept 30?**

**Airline Route Cuts will hit Secondary MSAs. Will your State have same Routes to US and Globally?**

<https://www.tsa.gov/coronavirus/passenger-throughput>

**UPDATE: Aug 20** - American Airlines will drop flights to 15 smaller U.S. cities in October when a federal requirement to serve those communities ends. Airlines received money from CARES Bill - In return for taxpayer dollars, airlines were barred from furloughing workers and were required, in most cases, to continue serving destinations they had before the pandemic. Both of those conditions expire Sept. 30.



## Good News for Supply-Chain States and Jobs



Rail Traffic, Intermodal, Supply-Chain and Logistics - The new October data on Rail Traffic and Intermodal Containers is, well, truly amazing! **In six months intermodal rail traffic went from worst in a decade to best ever.** Supply-Chain is returning to normal. Note the following opening summary from the latest [AAR.org](#) RailTime Indicators report covering October traffic:



"North American Freight Rail Traffic in October 2020 Back in April 2020, when the U.S. economy was basically in a coma, U.S. intermodal originations averaged 219,085 units per week. **That was the fewest for any month in more than seven years and the fewest for April in ten years.** Back then, no one would have thought that **six months later, in October 2020, U.S. railroads would have their best intermodal month in history.** Yet that's where we are: U.S. railroads originated an average of 292,469 containers and trailers per week in October 2020, more than ever before and **up a stunning 33.5% over April 2020"**



# Rail Traffic – Dec Update for Nov Period – YOY up 11.5%



December 4, 2020

## Rail Time Indicators

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

**As goes Intermodal  
Rail Traffic goes  
GDP and demand for  
more Warehouse!**

## 1. Freight Railroad Traffic

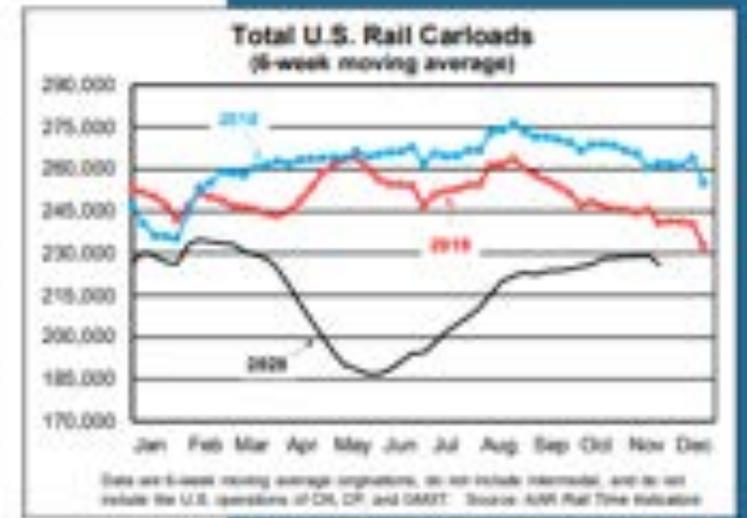
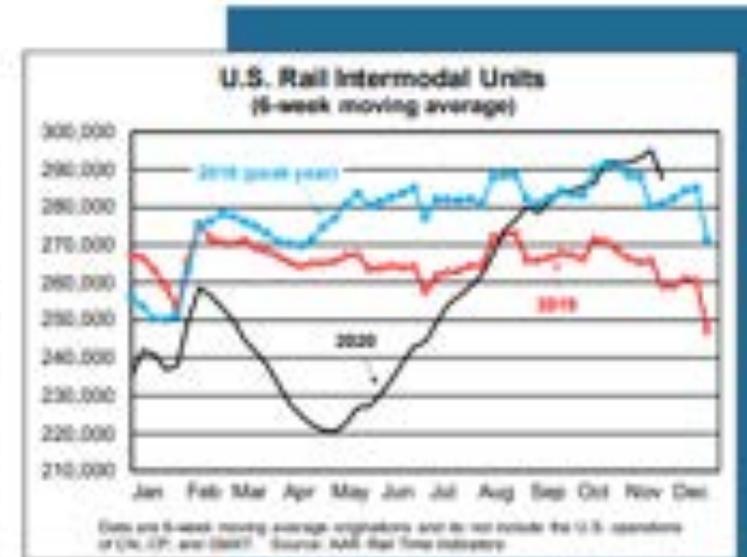
### United States

U.S. railroads originated an average of 284,174 **intermodal** containers and trailers per week in **November 2020 – the most ever for November and the sixth best month overall.** Thanksgiving week (246,504 units) pulled down November's average – the second week of November (295,316 units) and the third week of November (301,129 units) were the fifth-best and third-best weeks, respectively, in history for U.S. intermodal.

**U.S. intermodal volume in November 2020 was up 11.5% over November 2019. That's intermodal's fourth straight year-over-year monthly gain and the biggest year-over-year percentage gain since February 2016.** (The percentage gain back in February 2016 was unusually high (13.4%) because labor disputes at West Coast ports hurt volumes in February 2015.)

For the first 11 months of 2020, U.S. intermodal originations were 12.34 million, down 3.1% (400,753 units) from the first 11 months of 2019.

**Total U.S. carloads** (not including intermodal) were 900,194 in November 2020, down 5.8% from November 2019. That's the smallest year-over-year percentage decline for total carloads since August 2019. The peak decline was 27.7% in May 2020. That said, total carloads averaged 225,049 per week in November 2020, the smallest weekly average for November in our records which begin in 1988.





# The Red Shoe Economist's

Annual

*Naughty & Nice Elves*

# NAUGHTY ELVES

## Monetary Elf



- FED balance sheet tops **\$7.4 trillion** by 12/31/20
- 20% increase in the Money Supply with devaluation of the Dollar
- 10-Year Treasury Bond hits 93 basis points on the last day of the trading year (almost doubled in 2020).  
**Above 1.1% Jan 11<sup>th</sup>. No coincidence in Bitcoin rise >\$30k**
- **Commercial Real Estate Momentum Index** –WHAT – Orange & Yellow shading are good/improving and Green & Blue deteriorating? It's repackaged CoStar & Moody's Analytics.



## Abominable Snow Elf

- 2020 had the greatest number of names storms in any season! **Welcome to the Greek alphabet!**
- 31 Tropical Depressions became 30 Tropical Storms
- 13 Hurricanes, including 6 major Hurricanes.
- **Property & Casualty Insurance** - what's the impact to housing and commercial real estate?
- Building materials are scarce, and when available **EXPENSIVE!**
- Look for changes in P&C Insurance based on the final financial impact of these storms.

# Public and Private Indebtedness – Top 10 in 20 (with K.C. Conway, CRE)



## REAL ESTATE ISSUES®

2021 TOP TEN ISSUES  
AFFECTING REAL ESTATE®

The Counselors of Real Estate®

The Consequences of Public and  
Private Debt on Real Estate

Volume 44, Number 10

July 10, 2020

By K.C. Conway, CRE, MAI, CCIM, and  
Thomas Curtin, CRE

**Public & Private Indebtedness was listed as the #4 issue in the 2020-21 Top Ten Issues Affecting Real Estate® by The Counselors of Real Estate®.**

**Prior to the COVID-19 pandemic, the United States was on track for its first \$1.0 trillion fiscal year deficit since 2009** and the onset of the Financial Crisis. The aggregate incurred deficit at the end of fiscal year 2019 was approximately \$23 trillion. However, the Federal Reserve was on a different path and was shrinking its balance sheet back below the \$4.5 trillion expansion during the 2009-2015 period due to the liquidity intervention required to combat the Great Recession.

<https://www.cre.org/podcast/public-and-private-indebtedness-top-10-in-20-with-k-c-conway-cre/>

<https://www.cre.org/wp-content/uploads/2020/07/Real-Estate-Issues-Public-and-Private-Indebtedness.pdf>



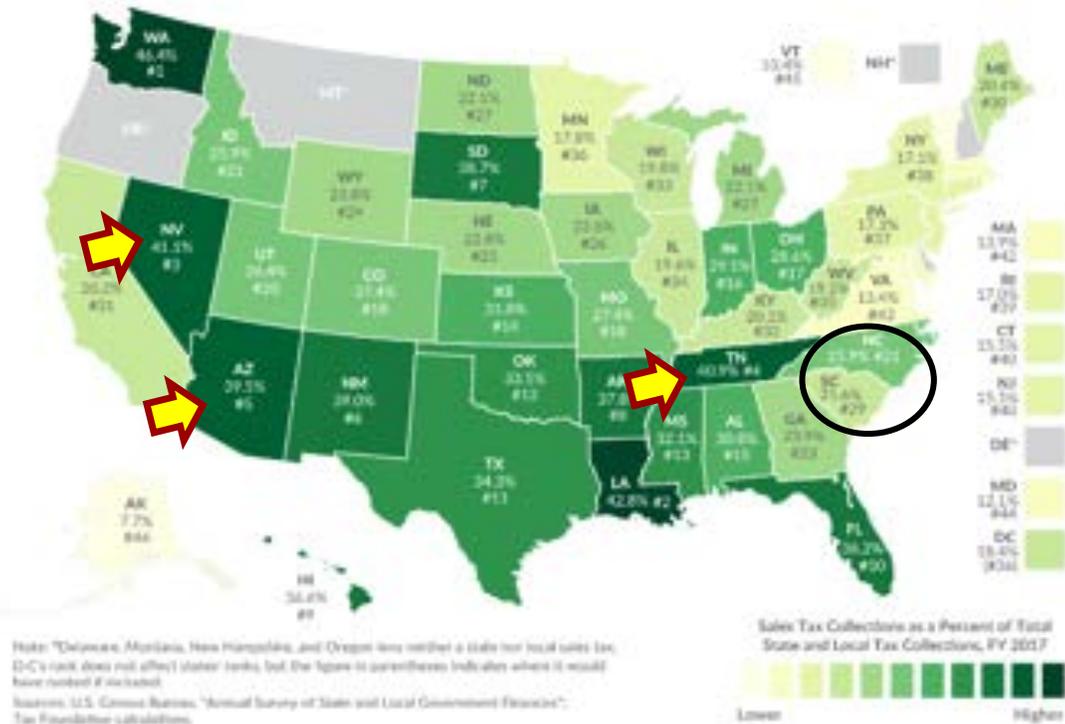
# State & Local Gov Fiscal Health: In Focus post Covid19

Sales Taxes as % of Revenue (NC = 25%)  
 NV & AZ highest in West (41%/39%); TN, LA & FL in South

State Revenue Declines: (NC down just 18%):  
 AK and CA worst down >40%; NY/NJ down 37%.  
 US avg Revenue drop for all states: -29%

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

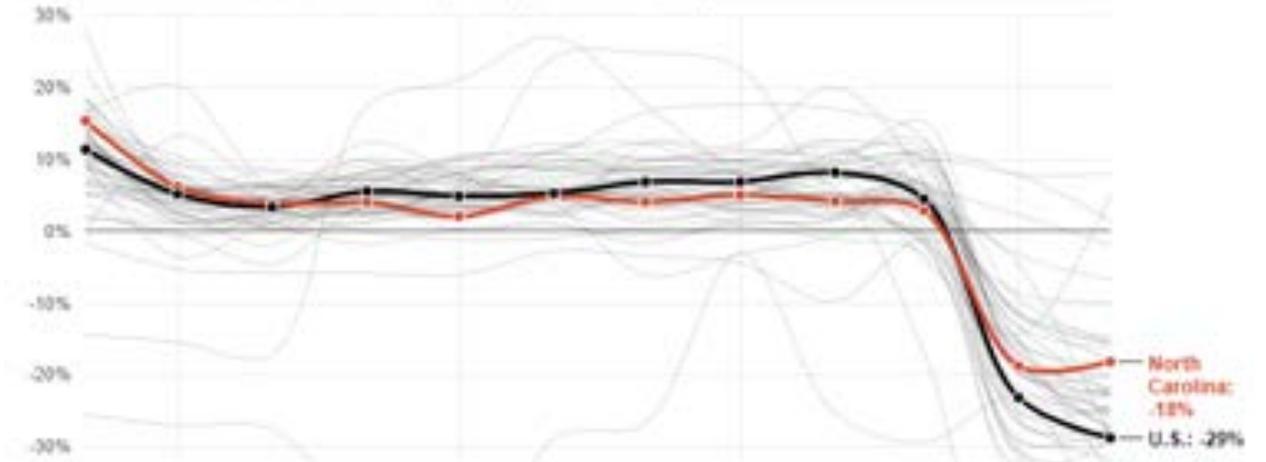
Sales Tax Collections as a Percent of Total State and Local Tax Collections, FY 2017



## From March To May, Tax Revenue Was Down 18% In North Carolina Compared With Last Year

Most states have experienced a significant reduction in tax revenue in recent months. Click on a state to learn more about its budget and revenue situation.

### CHANGE IN MONTHLY REVENUE VS. PREVIOUS YEAR (3-MONTH AVERAGE)



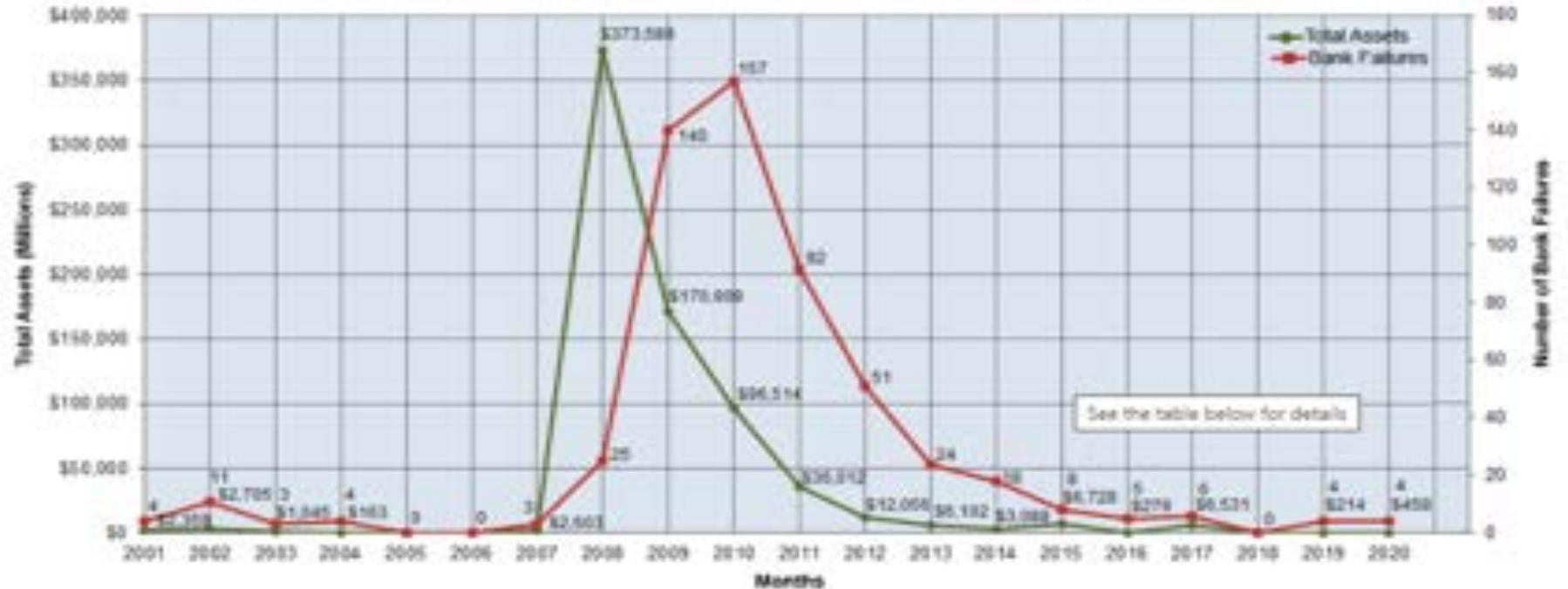
<https://www.npr.org/2020/08/03/895384547/new-york-has-lost-a-greater-share-of-revenue-than-most-states-due-to-covid-19>



# Bank Failures: They are back! Where is the Risk/Opportunity?

## Bank Failures in Brief – Summary 2001 through 2020

There were 561 bank failures from 2001 through 2020. Please select the year buttons below for more information.



Summary by Year  
(Approximate asset dollar volume based on figures from the press releases)

Years	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Bank Failures	4	11	3	4	0	0	3	25	140	157	92	51	24	18	8	5	8	0	4	4
Total Assets (Millions)	2,358.6	2,705.4	1,045.2	163.1	0	0	2,602.5	373,588.8	170,867.0	96,514.0	36,012.2	12,055.8	6,101.7	3,088.4	6,727.5	278.8	6,530.7	0	214.1	458.0

<https://www.fdic.gov/bank/historical/bank/>

# NC / Richmond FED has Healthy Banks

## Texas Ratio

Developed at RBC Capital Markets, the Texas Ratio is a relatively straightforward and effective way to determine the overall credit troubles experienced by financial institutions. **It is determined by comparing the total value of at risk loans to the total value of funds the bank has on hand to cover these loans. At risk loans are any loans that are more than 90 days past due and are not backed by the government.** The amount of funds on hand consists of the loan loss allowance that the bank has set aside plus any equity capital.

For example, a bank with \$65 million in at risk loans and \$72 million in cash on hand to cover those loans would have a **Texas Ratio of \$65mm / \$72mm, which is 90.3%. This figure is approaching the 100% threshold, which is considered very risky.** You can also look at the trend in this Texas Ratio as an additional factor to tell if the bank's financial health is heading in the right direction.

## Best and Worst Banks and Credit Unions by Texas Ratio

In addition to our proprietary health rating system that assigns an overall letter grade to financial institutions based on a number of factors, we recognize that many visitors also want to see the raw Texas Ratio figures for each financial institution. Use the filter options below to access our database and search by best/worst, institution type (banks/CUs), state, and asset size.

Show the  in  in  with assets of

Bank or Credit Union	Headquarters	Texas Ratio	Assets
BB&T	Winston Salem, NC	1.84%	\$488.02 billion
The Fidelity Bank	Fuquay-Varina, NC	2.23%	\$2.72 billion
Peoples Bank (NC)	Newton, NC	2.29%	\$1.46 billion
Bank of America	Charlotte, NC	2.37%	\$2.16 trillion
First Bank (NC)	Southern Pines, NC	2.67%	\$7.06 billion
Southern Bank and Trust Company	Mount Olive, NC	2.9%	\$3.62 billion
HomeTrust Bank	Asheville, NC	3.31%	\$3.67 billion
North State Bank	Raleigh, NC	3.97%	\$1.24 billion
Live Oak Bank	Wilmington, NC	4.04%	\$8.06 billion
First Citizens Bank (NC)	Raleigh, NC	4.97%	\$48.63 billion
Select Bank & Trust	Dunn, NC	5.79%	\$1.76 billion

<https://www.depositaccounts.com/banks/health.aspx>

# 'Some Financial Institutions Will Fall': Concerns Rise About Bank CRE Loan Portfolios

November 17, 2020 | Jarred Schenke, Bisnow Atlanta 

“We're starting to see strain in the financial system,” CCIM Institute Chief Economist K.C. Conway said. “The Fed has not really forced the banks to recognize what's going on in commercial real estate.”

Conway's evidence of financial system stress is percolating in the Texas Ratio, which measures the value of banks' nonperforming loans compared to their total asset value plus loss reserves. The higher the number, the more trouble there is. And when banks reach a ratio of 100% or more — or their resources are outstripped by their outstanding troubled loans — they typically fail.

RBC Managing Director Gerard Cassidy and other analysts created the formula to evaluate problem banks in Texas in the 1980s. Today, the Texas Ratio is one of the standards analysts use to evaluate the health of banks.

The Texas Ratio of all U.S. banks had been on a steady decline since the end of the Great Financial Crisis, when it topped 27%. By the end of 2019, the nationwide Texas Ratio had fallen to 6.8%. But it has gone up this year, rising to 7.1% at the end of the third quarter. Conway expects it to rise more in the coming months.

<https://www.bisnow.com/national/news/capital-markets/some-financial-institutions-will-fall-as-concerns-rise-about-bank-cre-loan-portfolios-106733>

# NAUGHTY ELVES



Lockdown Elf

- Lookout Small Business and Parents!
- As of 12/31/20; Small Business revenue was down 32% YOY;
- 29% of **ALL** Small Businesses closed in 2020,
- Doesn't include "Silent Failures" - sole proprietors and self funded,
- The legacy formula from Lockdowns is:  
**Lockdown creates vacant space = lost tax revenue = fiscal deficits.**
- Chapter 9 county & municipal governmental bankruptcies on the 2021 horizon. Expect the 74 from Great Recession to be surpassed – think of the 138 college towns with lost revenues.

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'Bob the Builder' Elf



- **1 in 4 American households cannot pay their rent/mortgage**, surpassing the Great Recession. 5% of all mortgages in a forbearance program.
- Forbearance and eviction moratoriums extended – but for how long?
- 2020's housing affordability problem will rise to CRISIS LEVEL in 2021.
- The one rogue builder elf acting contrarian and adding affordable housing is SF Homes 4-rent by likes of American Homes 4Rent.
- **Currently, Single Family Homes for Rent = MF apartments at 16.4 million each (John Burns Consulting).**

<https://www.realestateconsulting.com/our-clients/single-family-rental/>



# Work Models & Office CRE

## Nearly 70% of CEOs expect to downsize offices: KPMG



<https://therealdeal-com.cdn.ampproject.org/c/s/therealdeal.com/2020/09/03/nearly-70-of-ceos-expect-to-downsize-offices-survey/amp/>

Out of 315 CEOs answering the survey published in [KPMG's "2020 CEO Outlook: Covid-19 Special Edition,"](#) 69 percent checked the "We will be downsizing office space" box.

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

The rapid shift to working from home might have been rocky at the outset of the pandemic, but after months of overseeing their remote workforce, 77 percent of CEOs said they will increase their use of digital collaboration and communication tools, according to the survey conducted in July and early August.

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



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



Working remotely has widened our potential talent pool.



We will be downsizing office space.



My communications with employees have improved during the crisis.

Source: KPMG 2020 CEO Outlook COVID-19 Special Edition, KPMG International.



<https://home.kpmg/xx/en/home/insights/2020/08/global-ceo-outlook-2020.html#:~:text=The%20agenda%20for%20the%20new,impact%2C%20both%20societal%20and%20economic>

# More Than Half Of Tech Companies Plan To Dispose Of Real Estate In Coming Months

October 8, 2020 | Jon Banister, Bisnow Washington, D.C. ✉

Technology companies across the country expect to need less office space in the coming years, a sign of falling demand in the commercial real estate market.

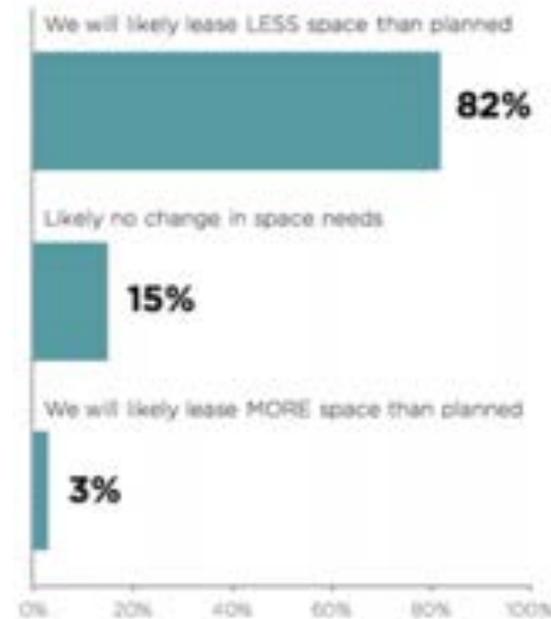
Tenant representation firm [Savills](#) released a survey Thursday of 250 technology companies that found 82% anticipate needing less office space over the next 12 to 18 months, and 55% plan to dispose of existing space over that time period.

This disposal of space is already happening in a big way, with a wave of sublease listings hitting the market, Savills Executive Managing Director Zev Holzman said.

"Every day there is new sublease space hitting the market from tech companies of all sizes," Holzman said. "We're seeing a very steady flow of new subleases hitting the market."

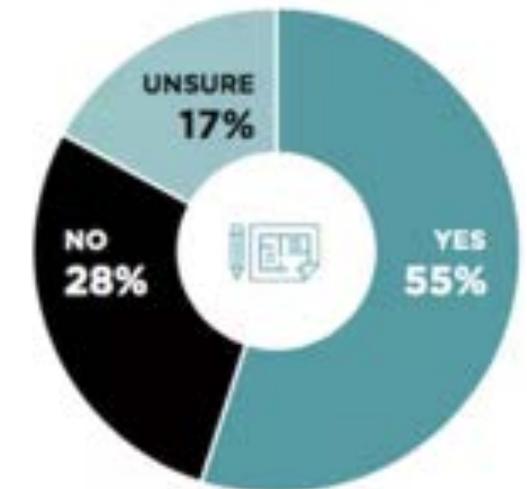
<https://www.bisnow.com/national/news/office/more-than-half-of-tech-companies-plan-to-dispose-of-real-estate-in-coming-months-106271>

Which of the following best describes the impact of COVID-19 on your office space needs in the next 12-18 months?



Courtesy of Savills

Do you anticipate looking to dispose of at least some portion of your existing space in the next 12-18 months?





# Kastle Back to Work Barometer

## City-by-City Views of America's Office Use



### KASTLE BACK TO WORK BAROMETER

Weekly Occupancy Report from Kastle Access Control System Data

1.4.21

#### BAROMETER THIS WEEK

16.5%  
10 CITY AVERAGE  
OCCUPANCY



	Wed 12/23	Wed 12/30	% Change
Los Angeles metro	24.1%	21.4%	2.7% ▼
San Jose metro	12.4%	10.6%	1.7% ▼
Philadelphia metro	20.8%	19.3%	1.5% ▼
New York metro	10.5%	9.0%	1.5% ▼
Washington D.C. metro	16.0%	14.6%	1.4% ▼
<b>Average of 10</b>	<b>17.8%</b>	<b>16.5%</b>	<b>1.3% ▼</b>
Chicago metro	13.2%	11.9%	1.3% ▼
San Francisco metro	9.8%	8.8%	1.0% ▼
Houston metro	22.9%	22.0%	0.9% ▼
Dallas metro	25.7%	25.3%	0.5% ▼
Austin metro	22.6%	22.5%	0.1% ▼

Kastle customers are in 2,681 buildings in 138 cities. The Barometer reflects daily swipes of Kastle access controls from the top 10 cities. It summarizes recent weekday building access activity among our business partners, not a national statistical sample.

To learn more about Kastle's solutions visit [www.kastle.com/kastlesolutions](http://www.kastle.com/kastlesolutions)



### Kastle Access Control Data Shows Declining Rates Nationwide During Holiday Week

Americans have been living through a period of intense uncertainty since March — struggling with an unprecedented pandemic and the economic distress it has caused.

To provide some clarity on the issues facing American businesses, Kastle Systems has been studying keycard, fob and KastlePresence app access data from the 3,600 buildings and 41,000 businesses we secure across 47 states. We're analyzing the anonymized data to identify trends in how Americans are returning to the office.

**Every city measured on the Barometer saw occupancy rates decline during the holiday week, with the 10-city national average at**

**16.5%** — down 1.3% from the week before. Two Texas cities, Dallas and Austin, experienced the smallest declines in occupancy, with drops of only 0.5% and 0.1%, respectively.

Despite declining occupancy rates, **Dallas still remains more than one-quarter open at 25.3%. Meanwhile, the least open city, San Francisco, now has an occupancy rate in the single digits at 8.8%.**



# Housing/Bob Builder Elf: Which 2 Pictures tell the real Housing Story!

The Other Quartile in Housing: The one with 1:4 Am Households in Rent or Mtg Forbearance, or Mtg DQT



# FHFA extends foreclosure and eviction moratorium to Jan. 31

The **Federal Housing Finance Agency** extended its moratorium on foreclosures and evictions for borrowers with mortgages backed by **Fannie Mae** and **Freddie Mac** until Jan. 31.

This marks the fourth time the government agency has extended the moratorium, now another month past its most recent deadline of Dec. 31. According to FHFA director Mark Calabria, extending Fannie Mae and Freddie Mac's foreclosure and eviction moratoriums through January 2021 keeps borrowers safe during the pandemic "This extension gives peace of mind to **the more than 28 million homeowners** with an Enterprise-backed mortgage," said Calabria.

Fannie and Freddie's foreclosure moratorium applies to enterprise-backed, single-family mortgages only. However, the **extension also applies to real estate owned (REO) evictions**, which are properties that have been acquired by an enterprise through foreclosure or deed-in-lieu of foreclosure transactions.

As a result, the **FHFA projects additional expenses of \$1.1 to \$1.7 billion** will be borne by the enterprises due to the existing COVID-19 foreclosure moratorium and its extension. This is in addition to the \$6 billion in costs already incurred by the enterprises.

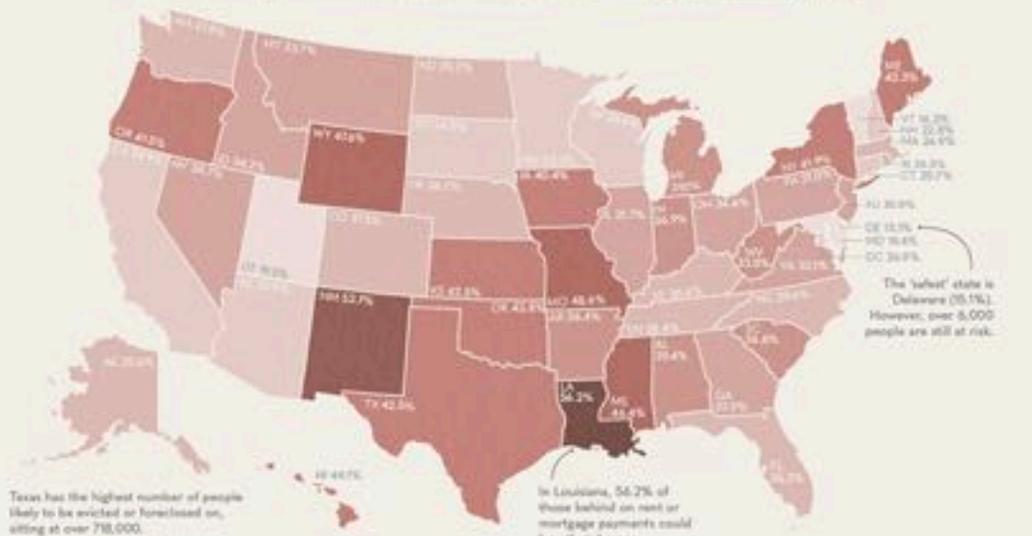
[https://www.housingwire.com/articles/fhfa-extends-foreclosure-and-eviction-moratorium-to-jan-31/?utm\\_campaign=Newsletter%20-%20Daily%20Download&utm\\_medium=email&\\_hsmi=101674207&\\_hsenc=p2ANqtz-900K1kHTASlgjTkBGoeHZzRZGdd4hSBLtzqT3wAIW9mSuNXazdLzg1Paq1N8ImYAIRatrcl4JJBTinXabnTybNqp0Fqg&utm\\_content=101674207&utm\\_source=hs\\_email](https://www.housingwire.com/articles/fhfa-extends-foreclosure-and-eviction-moratorium-to-jan-31/?utm_campaign=Newsletter%20-%20Daily%20Download&utm_medium=email&_hsmi=101674207&_hsenc=p2ANqtz-900K1kHTASlgjTkBGoeHZzRZGdd4hSBLtzqT3wAIW9mSuNXazdLzg1Paq1N8ImYAIRatrcl4JJBTinXabnTybNqp0Fqg&utm_content=101674207&utm_source=hs_email)

# MAPPING POTENTIAL U.S. HOME LOSS

Of 17 million Americans not current on their rent or mortgage payments, nearly 33% face foreclosure or eviction in the next two months.

Here's a look at the share of people in each state who are most at risk.

% at risk of foreclosure/eviction (those not current on payments)



Texas has the highest number of people likely to be evicted or foreclosed on, sitting at over 718,000.

In Louisiana, 56.2% of those behind on rent or mortgage payments could lose their homes.



Other states with high numbers of people facing eviction or foreclosure are: California, New York, and Florida.

The U.S. overall reports nearly 5.7 million people who are likely to lose their homes in the next 2 months, of 17 million who are not current on rent or mortgage payments.

Source: U.S. Census Bureau - Household Pulse Survey (Web 9)  
 Respondents' interpretations of "the next two months" ranged between Nov. 2020-January 2021

VISUAL CAPITALIST logo and social media links for Facebook, YouTube, Twitter, Instagram, and LinkedIn.

COLLABORATORS RESEARCH • WRITING Avery Krupp | DESIGN • ART DIRECTOR Avery Krupp | EDITING Nick Roulley

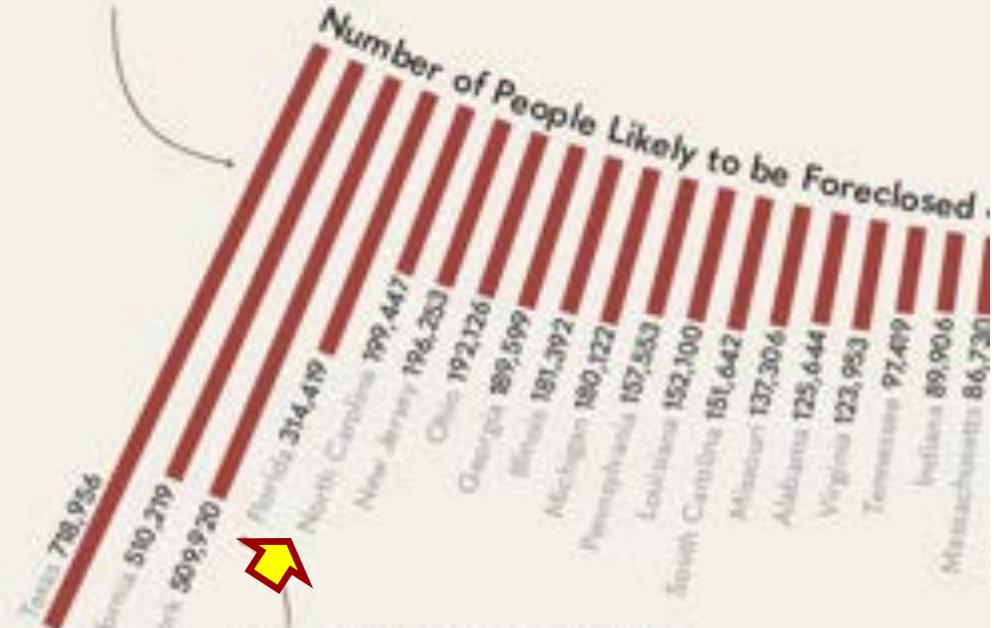
# MAPPING POTENTIAL U.S. HOME LOSS

Of 17 million Americans not current on their rent or mortgage payments, nearly 33% face foreclosure or eviction in the next two months.

NC ranks #5 with potentially 199k Foreclosures & Evictions in 2021 – only less than TX, CA, NY & FL

<https://www.visualcapitalist.com/mapped-the-risk-of-eviction-and-foreclosure-in-u-s-states/>

Texas has the highest number of people likely to be evicted or foreclosed on, sitting at over 718,000.



Other states with high numbers of people facing eviction or foreclosure are: California, New York, and Florida.



# Housing will need to be Rethought:

VISUAL CAPITALIST DATASTREAM

## OVER HALF OF U.S. YOUNG ADULTS LIVE WITH THEIR PARENTS



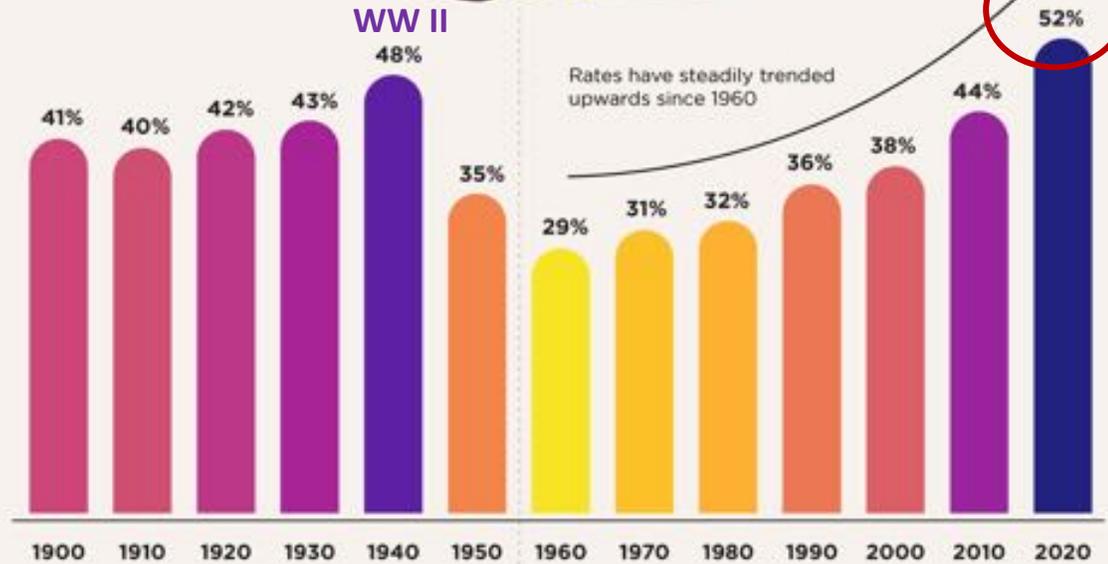
For the first time in the last 120 years, the majority of young adults (age 18-29) are now living with their parents

Societal, cultural, and economic factors have influenced the rate at which people leave home.



Economic instability has disproportionately affected young workers and many college campuses remain closed.

Covid19



The proportion of young adults living at home reached its low point in 1960 at the tail end of the baby boom.

Historically, white young adults were less likely to live with their parents, but that gap has now narrowed considerably.

<https://www.visualcapitalist.com/us-young-adults-living-with-their-parents/>

Source: Pew Research Center



# REAL ESTATE'S BIG WINNER:

## BUILD-FOR-RENT



### COVID-ACCELERATED

We estimate approximately **16.4M single-family rental** homes nationally.



### STABLE SFR RENTS

Single-family rent growth historically **stayed positive**, even during recessions.



### STRONG INDICATORS

Quick **lease-ups**, strong **occupancy rates**, and significant **rent premiums**.



### RENTERS BY CHOICE

Many SFR/BFR tenants are aged **25 to 54** and prefer to rent rather than own a home.



John Burns • 1st

Helping executives make informed housing industry investment decisions.

3w •

2020's REAL winner is Build-For-Rent.

US single-family rent growth historically moderates during recessions but despite ongoing economic uncertainty, US single-family rents continue to rise.

We estimate approximately 16.4M single-family rental homes nationally, meaning there are now about the same number of rental homes as apartment homes.

What impact do you think the economic uncertainty will have on renting behavior?

See the 11/6 newsletter on our website for more info.

[https://www.linkedin.com/posts/johnburns7\\_jbreddailyinsight-realestate-economy-activity-6731909562288492544-EhTk/](https://www.linkedin.com/posts/johnburns7_jbreddailyinsight-realestate-economy-activity-6731909562288492544-EhTk/)

# NAUGHTY ELVES

- Limited to no remote learning for tens of thousands of students, while still **charging full tuition rates**.
- Fall College Sports A-GO: Remote teaching not as successful. Look for significant changes in 2021 college attendance rates.
- Positive SHOUT-OUTS:**
  - Perdue University** announced it's tenth consecutive year of NO tuition hikes while adapting to on line learning.
  - Instructors who maintained office hours and made themselves available to their students during lockdowns, **like Dr. Ron Throupe and Mark Levine at University of Denver.**



University Elf

## Human Resources Elf

- Year-End 2020 job cuts of 2.227 million – highest annual tally on record.**
- Entertainment, Leisure and Retail hardest hit sectors with more than 50% of all jobs lost.
- CA, NY, FL, TX and OH are Top 5 states for job cuts, **but not so much in NC – TN, GA & FL many more cuts**
- In contrast to every major stock index posting record highs on Dec 31, the HR Elf ignored what was happening with corporate earnings.**

SOUTH	Dec-20	YTD 2020	YTD 2019
Alabama		7,392	2,940
Arkansas	756	2,837	1,378
Florida	995	212,998	18,954
Georgia	331	42,436	14,499
Kentucky	104	28,873	9,370
Louisiana	1,034	18,854	5,853
Mississippi		4,735	2,701
North Carolina	545	39,172	14,280
South Carolina	104	14,828	11,000
Tennessee	40	52,675	17,855
Virginia	175	16,247	25,804
West Virginia	400	8,127	2,717
<b>TOTAL</b>	<b>4,484</b>	<b>449,174</b>	<b>127,351</b>

<https://www.challengergray.com/blog/job-cuts-dec-2020-over-2-3-million-nearly-half-due-to-covid/>



# NAUGHTY ELVES

- **Chapter 9 is Bankruptcy for counties and cities; expect 100-150 in the next 12-24 months.**
- Focus on “What If” thinking as to a city or county bankruptcy:
  - Can it be traded?
  - Can it be financed?
  - How to Value?
- Go to [NUVEEN.com](http://NUVEEN.com) for a historical perspective on Chapter 9 bankruptcies.

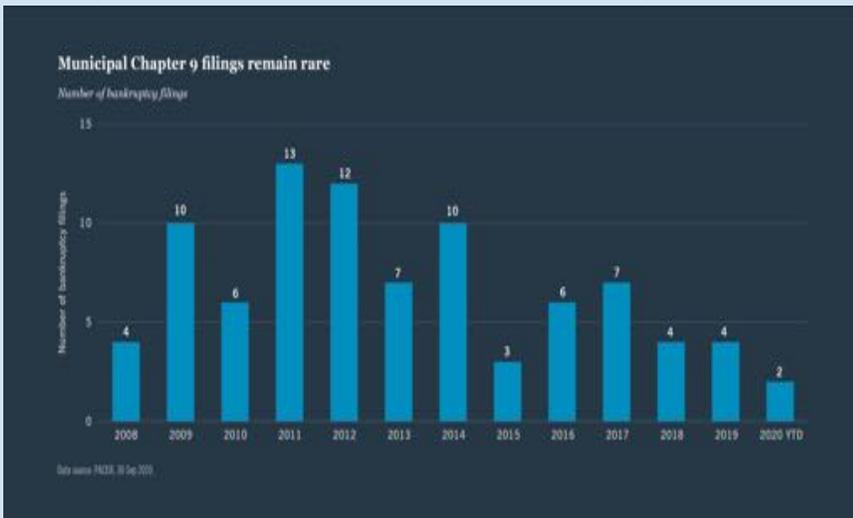


Chapter 9 Elf



Hacker Elf

- Shows up in the throes of a Pandemic!
- TWO previous hacks of US agencies, Equifax and lots of retailers. Where will it end?
- **All of CRE depends on systems and data bases to conduct business.**
- The REAL Russian story of 2020!
- 2021 is the year to ban Hacker Elf to the land of mischievous elves never to be played with again.



# NAUGHTY ELVES

- This elf covers all local, state, and federal government that failed us during this Pandemic!
- Fiscal CARES bill that allocates **\$600 per person rationalized as adequate to bridge the pandemic.**
- Hypocrisy of elected leaders who believe the Lock Down Elf's actions apply to you and me while they go to hair salons, host birthday parties, dine out, and travel for the holidays!
- Let's see where this goes with the Logistics of the COVID 19 vaccination. Seems PUBLIX grocery stores can better distribute than most municipalities.



Scrooge Elf

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

Taxing Elf



- Migration from high tax states in the NE and West Coast started with the 2017 Tax Act and accelerates in response to COVID 19.
- **TAXES will be one of the most divisive, defining and dividing issues of 2021:**
  - Municipalities pressured to refill empty revenue coffers resulting from COVID 19'
  - **Property tax appeals** related to vacancy from 'Work From Home' mandates,
  - Impact of new fees on property budgets.

# NICE ELVES



Supply Chain Elf

- Maintained **staples at the grocery store and components for manufacturing**, with some hiccups; but overall efficiency.
- Ports remained open and operational,
- Railroads pivoted from record lows in April to all-time highs in November,
- LAST MILE deliveries at record levels.

ShipMatrix estimates **more than 3 Billion packages were shipped between Thanksgiving and Christmas—800 million more than 2019!**

Site Selector Elf



- Obstacles presented by Lockdowns did not negatively impact, nor stall Site Selection for company HQs, events or retail.
- Complements to Texas, Alabama, and Tennessee for noteworthy wins:
  - **2025 World Police & Fire Games – Birmingham AL;**
  - GM Electrical Vehicle manufacturing plant announced for Springfield TN, building Cadillacs.
  - Navistar announces new commercial vehicle manufacturing plant in San Antonio, TX
  - **Tesla and CBRE move corporate HQ from CA to TX. Epic Games buys former Cary Town Center Mall for new HQ**

# Site & HQ Selection ELF: Epic Games/ Fortnite and Cary Town Center Mall acquisition



## Access the largest manufacturing workforce in the Southeastern U.S.

- Ranked #1, Largest Manufacturing Workforce in the Southeast
- Ranked #2, Competitive Labor Environment by Area Development, 2018
- Elite higher Education – 53 colleges and universities including the Tier 1 research universities NCSU, Duke, and UNC

## North Carolina

Pop. (2020): 10,736,879

Median household income (2020): \$54,829

Credit Rating: AAA, Stable

Pop. growth 2000–2020: 1.11%

Median age (2020): 39

Right-to-work state: Yes

### Legislative Update

- House Bill 1080 extends the sunset of the state's Jobs Development Investment Grant Program until January 1, 2022. From 2002 through June 2021, NC companies had disbursed \$79,544,372 to companies for creation of 42,792 new jobs and retention of 16,262 jobs, with grants totaling nearly \$4 billion.
- The Championship NC Act that became law in September modifies the Site Infrastructure Development Fund (SIDF) to allow businesses to be eligible for a site development award so long as they meet certain very detailed criteria that were targeted to attract a project named a week later. The United States Golf Association announced it will establish "Golf House Prostate" in North Carolina. It includes a new equipment-testing facility, innovation hub, museum/center and offices by 2025, and host the U.S. Open Championship by 2042. An initial \$25 million will back construction of two buildings at Prostate where 50 USGA staff members will work.



<https://siteselection.com/issues/2021/jan/state-of-the-states-2021-cover.cfm>



# NICE ELVES

## Last Mile Elf



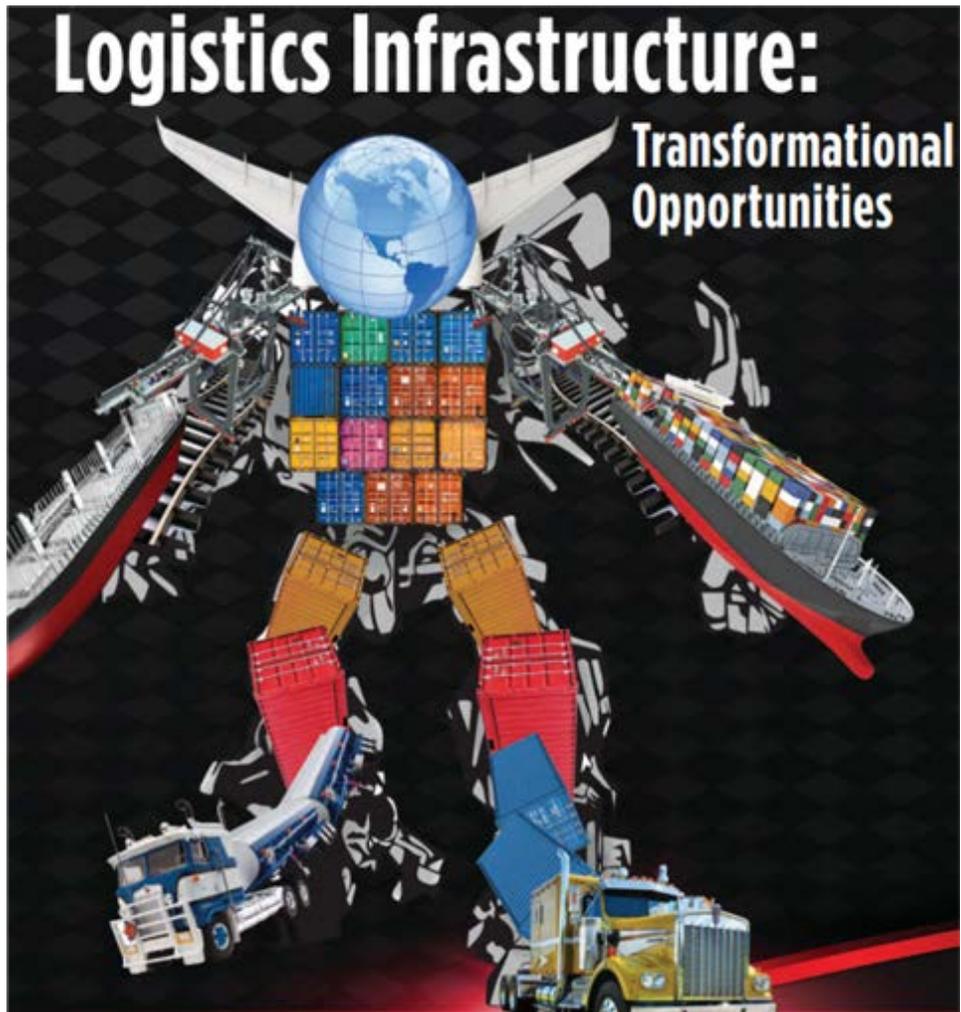
- Last Mile delivery costs are **50% of total retail logistics costs**.
- With the COVID 19 Pandemic and more online everything, the problem was amplified.
- SOLUTION: Retail to Industrial Conversion (RIC)
  - This strategy **connects vacant big box retail** in high density population centers **with logistics infrastructure** to Last Mile distribution points.
- Look for a CCIM Ward Center Course on LAST MILE to debut later this month.



## FREE 'Everything' Elf

- FEDERAL HOUSING FINANCE AGENCY (FHFA). This entity **granted rent and mortgage forbearance with the pandemic, including eviction moratoriums**.
- FHFA did more to assist essential workers and a workforce decimated by LOCKDOWN from becoming homeless.
- **This action buoyed the housing market more than other factors cited by the media, such as a lack of inventory.**
- **FHFA prevented mass evictions, foreclosures, and a collapse in home prices** during the COVID 19 pandemic.

# Ports & Industrial CRE – It's all about LI



<https://www.acre.culverhouse.ua.edu/research/logistics-infrastructure-research>

The shift from **shop-and-take-home** to **online-order and deliver** will result in less retail store square footage, but the tradeoff will be many new fulfillment centers and warehouses aligned with new LI. E-commerce fulfillment centers will displace one-third of America's 1,300 malls.

**From**  
**“Shop & Take Home”**  
**to**  
**“Order Online and Deliver to me.”**

LI is driving the “why” and “where” decisions for commercial real estate development.

Examples of this transformation in action are the locations of new Amazon and Wal-Mart fulfillment centers developing near intermodal - places like Bessemer and Mobile, Ala.; Ohio; Polk County, Fla.; and, Tucson, Ariz. One can also look to the locations for new aircraft, auto and machinery manufacturing plants in Alabama, Georgia, South Carolina and Texas.

“Build the Logistics Infrastructure and development will come” is not a cliché - it is transformational logistics in action today.

Just as the steel and textile industries left the U.S. in the 1970s & 1980s in pursuit of cheap labor abroad, retail, distribution, and manufacturing businesses are at risk of leaving cities and states that don't invest in LI and update aging infrastructure.

# Last Mile Logistics: The Final and Most Expensive Link In the Supply Chain

Presented by

**KC Conway, CCIM, CRE, MAI**

CCIM Institute Chief Economist

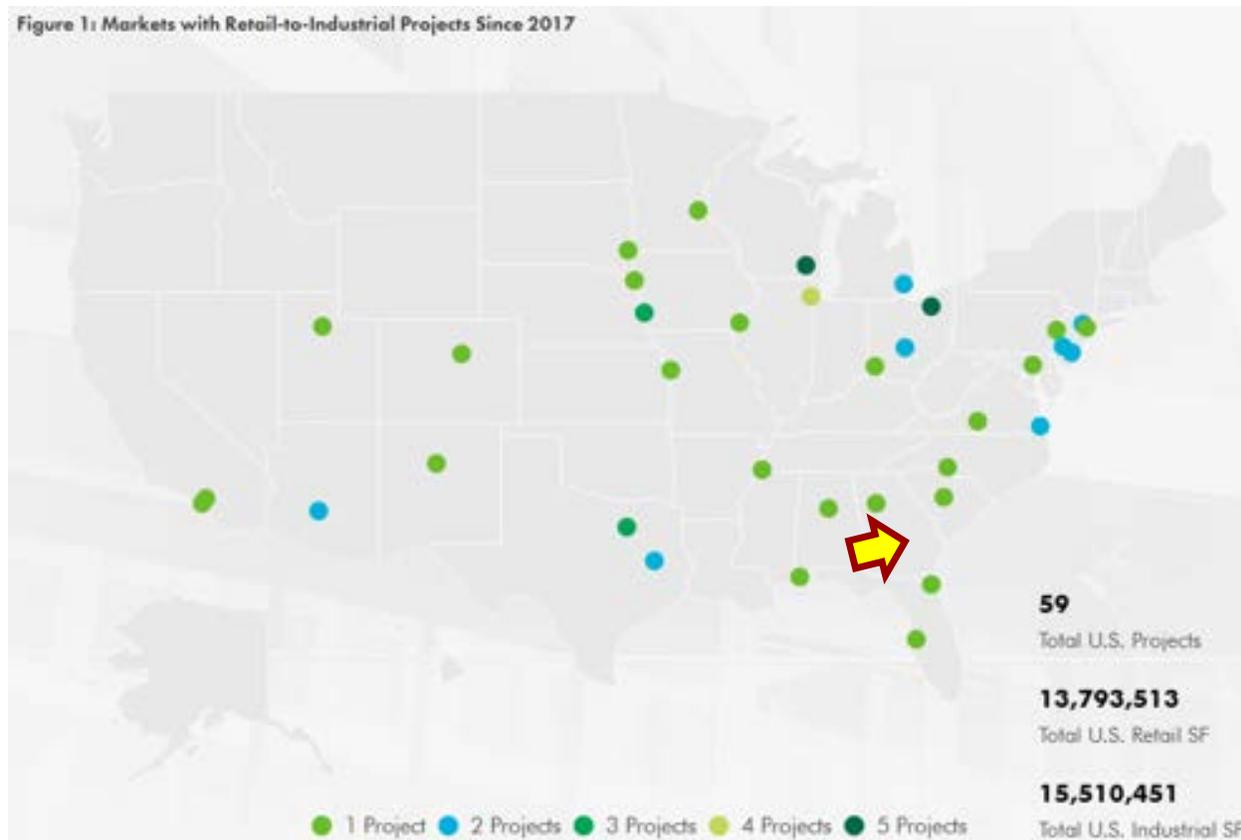
[KC@RedShoeEconomics.com](mailto:KC@RedShoeEconomics.com)





**Retail-to-industrial property conversions are accelerating** across the U.S., driven by the growth of e-commerce. There are now **59 such projects that have either been completed, proposed or are underway since 2017—up from 24 in January 2019**, according to a CBRE Research survey. These projects total approximately **13.8 million sq. ft. of retail space converted to 15.5 million sq. ft. of industrial space.**

Underperforming retail sites have become an ideal location for last-mile warehouse developers.



[https://www.cbre.us/research-and-reports/US-MarketFlash-Retail-to-Industrial-Property-Conversions-Accelerate?utm\\_source=CampaignLogic&utm\\_medium=email&utm\\_campaign=Evolution+of+Online+Retail+Accelerates+Retail-to-Industrial+Conversion+Projects+Across+the+U.S.\\_07/23/2020](https://www.cbre.us/research-and-reports/US-MarketFlash-Retail-to-Industrial-Property-Conversions-Accelerate?utm_source=CampaignLogic&utm_medium=email&utm_campaign=Evolution+of+Online+Retail+Accelerates+Retail-to-Industrial+Conversion+Projects+Across+the+U.S._07/23/2020)

# Retail-to-Industrial Conversion Example (Dec. 2020)

## Amazon Buys Former Kmart in Hampton, Virginia, for Future Last-Mile Delivery Center

Site of 'Long-Vacant Eyesore' Was Rezoned for Industrial Use



A former Super Kmart described as a "long-vacant eyesore" by Hampton, Virginia, Mayor Donnie Tuck has been acquired by Amazon with plans to convert the property into a last-mile delivery center. **The e-commerce giant closed on a deal to buy the 94,649-square-foot building** at 210 W. Mercury Blvd. where it plans to construct a 100,000-square-foot facility it said will expedite delivery times to consumers in the region. The facility is expected to create 200 new jobs and is slated to open next year.

Amazon filed an application request to **rezone the roughly 21.2-acre site** for the construction and operation of a new warehouse and distribution center. **The property had an asking price of \$6.2 million.**

Additionally, Amazon said it plans to open a delivery station in Norfolk after subleasing the 165,000-square-foot property from longtime tenant, Schneider Logistics. **Ashton Williamson of Colliers International brokered the lease**, according to CoStar information.

**The expansion is the latest in the Hampton Roads area for Amazon.** In March, the company disclosed plans to invest \$250 million to build a pair of massive operations facilities that together are expected to bring 1,500 jobs to the Tidewater area. That includes a new robot-powered fulfillment center in Suffolk that, at 3.8 million square feet, would be the largest industrial building in the state.

<https://product.costar.com/home/news/shared/518715667?>

# NICE ELVES



Data Elf

- Where would CRE industry be without DATA to support investment activity and keep the capital flowing?
- TREPP – insights like LTSS (*Loans Transferred to Special Services*) and reliable data,
- Real Capital Analytics (RCA) – the best CPPI (*Commercial Property Price Index*) and CAP RATE by property to the MSA level,
- American Association of Railroads with *RailTime Indicators* reports assisting Supply Chain,
- Plus TSA Passenger Count, CompStak, Visual Capitalist, Johns Hopkins University, and Red Shoe Economics.



Industry Associations Elf

- Reflect on all the Industry Associations whose **proactive stance kept all of us as “Essential Workers”, and able to serve our CRE clients.**
- NAR (*National Association of Realtors*) spearheaded every CRE issue from housing to 1031 Exchanges,
- AI (*The Appraisal Institute*) lobbied regulators for accommodations for property inspections,
- IREM assisted building owners and property managers in navigating the re-opening buildings and adding touchless technology and equipment,
- CRE (*Counselors of Real Estate*) provided one of their best ever Top 10 Issues reports.
- CCIM Institute added educational offerings pivoting to remote and online options and conducted two national conferences, and designation testing.
- **ACG advocated for Middle Market Companies**

# CMBS Delinquency Rate Slips Modestly in November

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

## Overall Property Type Analysis (CMBS 1.0 and 2.0+)

- The industrial delinquency rate fell 43 basis points to 1.10%
- The lodging delinquency rate moved up 23 basis points to 19.66%
- The multifamily delinquency rate increased 16 basis points to 3.11%
- The office delinquency rate dropped 22 basis points to 2.27%
- The retail delinquency rate declined 12 basis points to 14.21%

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

	NOV-20	OCT-20	SEP-20	3 MO.	6 MO.	12 MO.
Industrial	1.10	1.53	1.07	1.20	1.82	2.00
Lodging	19.66	19.43	22.94	22.96	19.13	1.52
Multifamily	3.11	2.95	2.80	3.02	3.25	2.01
Office	2.27	2.49	2.28	2.32	2.40	1.97
Retail	14.21	14.33	14.76	14.88	10.14	4.36

Source: Trepp

The Trepp CMBS delinquency rate logged its fifth consecutive monthly decline following two large jumps in the reading in May and June of this year. After several months of big dips, the rate fell much more modestly in November. The CMBS delinquency rate in November is 8.17%, a decline of 11 basis points from October. The percentage of loans in the 30 days delinquent bucket is 0.94%, which is down six basis points for the month.

As the Trepp team has noted before, **the declines come with caveats**. Some of the loans that have been identified as current came because of the granting of forbearances and the authorization of borrowers to use reserves to bring debt service payments up to date.

# Apartment Rent Payments at 90.3% as of November 20

## Rent Payment Results Remain Stronger in Class A and B Properties Than in the Class C Apartment Product Segment



Metro	Annual Decline in Payments
Portland	-6.8%
Seattle	-5.0%
Las Vegas	-4.7%
San Jose	-4.7%
New York	-3.8%
Los Angeles	-3.4%

Rent Collections Are Off Meaningfully in Select Areas, Mostly Expensive Markets

Source: RealPage, Inc.



The National Multifamily Housing Council reports that **90.3% of households living in the country's stock of professionally managed market-rate apartment properties have paid rent for November as of the 20th.**

The findings come from the National Multifamily Housing Council's Rent Payment Tracker research, compiling information provided by five technology firms, including RealPage, Inc., for more than 11 million market-rate apartment units.

<https://www.realpage.com/analytics/apartment-rent-payments-90-3-november-20/>

October 2020

1.2% Change past month

3.6% Change past year

## Change in RCA CPPI October 2020

	1-mth	3-mth	1-yr	3-yr	5-yr	10-yr
Office	0.4%	0.5%	-0.9%	8.8%	24.2%	73.5%
Office - CBD	0.3%	1.0%	3.5%	11.1%	30.9%	108.4%
Office - Sub	0.5%	0.5%	-1.6%	6.7%	22.7%	70.1%
Industrial	0.8%	2.6%	8.5%	31.1%	52.8%	108.2%
Retail	-0.5%	-1.7%	-5.2%	-0.3%	3.5%	44.5%
Commercial	0.4%	1.0%	1.8%	13.0%	25.6%	74.5%
Apartment	0.8%	2.2%	7.2%	30.3%	60.0%	168.5%
All Types	1.2%	3.7%	3.6%	18.8%	38.2%	106.0%
6 Major Metros All Types	0.3%	0.8%	2.0%	13.6%	32.4%	105.8%
Non-Major Metros All Types	0.8%	2.1%	4.2%	20.5%	39.8%	106.4%

The national rate of commercial property price growth rose in October as the weight of capital in the high-flying apartment and industrial sectors boosted gains. The US National All-Property Index rose 3.6% from a year ago and 1.2% on the month.

Apartment prices increased 7.2% from a year ago. Multifamily has been one of the more stable assets during the current economic and health crisis, driven by activity in the secondary and tertiary markets. For the year to date, apartment deal volume is down 40% — only the industrial sector has posted a shallower drop in volume.

# NICE ELVES

Exchange Elf  
(stock exchange elf)



- All three major stock indices closed at record highs in 2020,
  - DOW closed at 30,606 up 196% on the year,
  - S&P broke through 3,750 to close at 3,756, up 24% for 2020,
  - NASDAQ hit 12,888 up 18% over 2019.
- **The total equity value of stocks increased \$5.0 trillion dollars.**
- 2020 was a year where the stock market performed contrarian to labor conditions,
- Look for rebalancing of this disparity in 1H21.

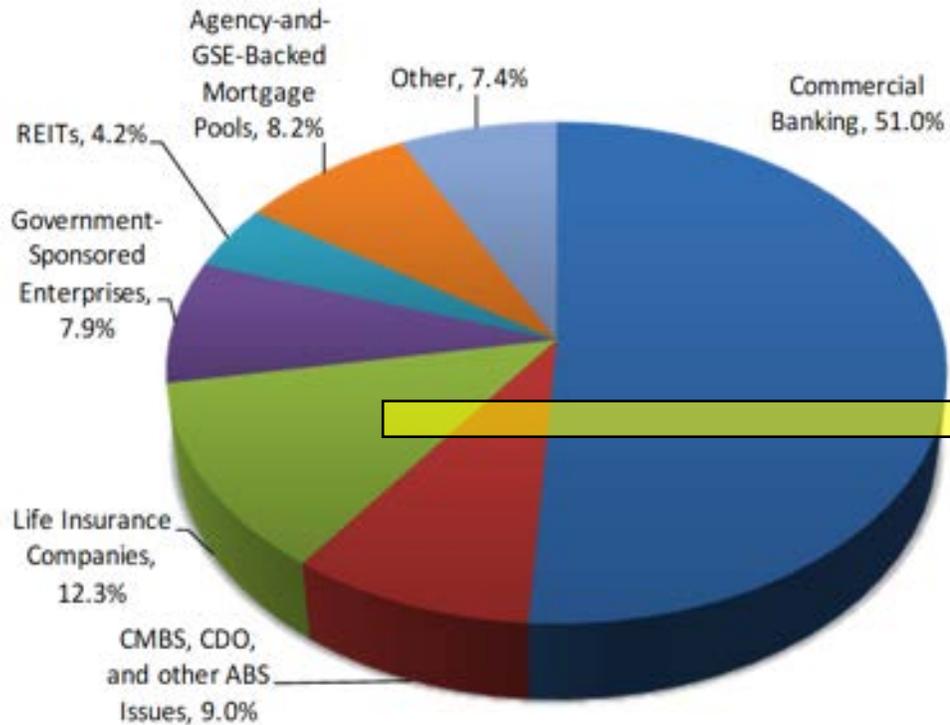
## Community Bankers Elf



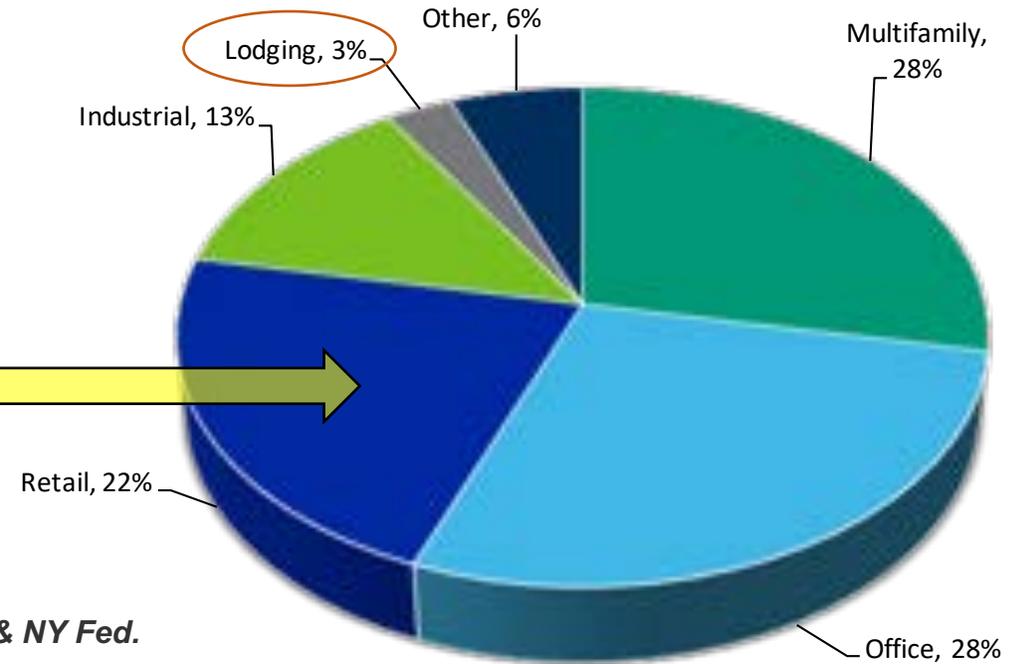
- Community banks were healthy coming into the 2020 Pandemic: improved metrics from Net Interest Margin (NIM) to operating expense/efficiency ratios, and lending activity.
- We recognize their **extraordinary service and behavior during the pandemic related to the administration of PPP and sustaining credit to small businesses and households** in the communities they serve---in stark contrast to the large banking organizations!
- Problem loans may make an appearance in community banks in 2021 and can be best monitored by the **Texas Ratio which is the leading indicator of stress on the community banking system.**

# The FED, Banking & CRE Lending – Add these to your Radar Screen

i) Banks Hold >50%;



ii) Life Cos Biggest Pieces Are MF and Office



Source: RCA & NY Fed.

**Note 1:**

>30% bank CRE loans on “Payment Deferral.”  
Banks looking at CRE Loan Debt sales vs drawn out Workout & REO process over 2 yrs.

**Note 2:**

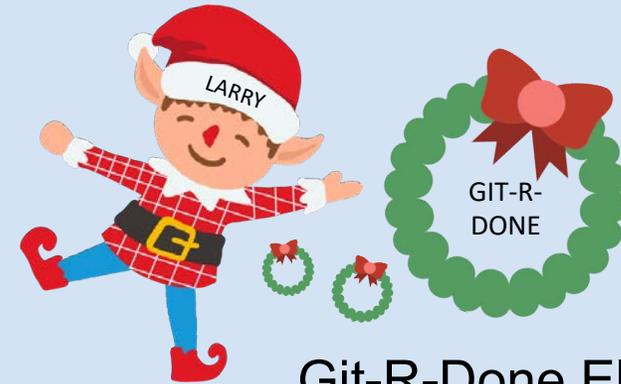
Life Cos. will need most help in MF, Office.  
However, these loans are much bigger \$ assets in urban areas. Hotel, not material.

# NICE ELVES

## Workforce Elves



- Healthcare and Retail workers, First Responders, Teachers, Factory Workers, Truck Drivers, and Dock Workers! **Kudos to these heroes who risked everything to keep us safe and supplied!**
- **She-cession:** an estimated 2 million women were forced to leave the workforce during this pandemic. Reasons are many, as are the repercussions.
- Expect to hear more on the topic of Women in the Workforce in 2021.



Git-R-Done Elf

- In recognition of EVERYONE who somehow got through 2020— Workforce Elves, parents, community leaders, and data partners,
- **A lot was disrupted in 2020, but a lot got done,**
- The only way out is through, **Look Up and Forward and to Engage in What If Thinking**



Git-R-Done Elf

BECKER'S \_\_\_\_\_  
**HOSPITAL REVIEW**

## States ranked by percentage of COVID-19 vaccines administered: Jan. 7

1. **South Dakota**

Doses distributed to state: 45,275  
Doses administered: 31,267  
Percentage of distributed vaccines that have been administered: 69.06

2. **Connecticut**

Doses distributed to state: 149,900  
Doses administered: 93,056  
Percentage of distributed vaccines that have been administered: 62.08

3. **New Hampshire**

Doses distributed to state: 54,650  
Doses administered: 33,177  
Percentage of distributed vaccines that have been administered: 60.71

4. **North Dakota**

Doses distributed to state: 40,825  
Doses administered: 23,642  
Percentage of distributed vaccines that have been administered: 57.91

5. **Iowa**

Doses distributed to state: 121,475  
Doses administered: 66,051  
Percentage of distributed vaccines that have been administered: 54.37



32. **North Carolina**

Doses distributed to state: 498,450  
Doses administered: 137,198  
Percentage of distributed vaccines that have been administered: 27.52

48. **Alabama**

Doses distributed to state: 183,900  
Doses administered: 43,280  
Percentage of distributed vaccines that have been administered: 23.53

49. **Arizona**

Doses distributed to state: 419,175  
Doses administered: 75,683  
Percentage of distributed vaccines that have been administered: 18.06

50. **Georgia**

Doses distributed to state: 514,925  
Doses administered: 89,695  
Percentage of distributed vaccines that have been administered: 17.42

<https://www.beckershospitalreview.com/public-health/states-ranked-by-percentage-of-covid-19-vaccines-administered.html>

**8 Items for 8 Days a Week!**

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

Employment - U6 & Job Cuts from Challenger-Gray

Office CRE: Urban Vs Suburban; longevity of remote

Housing (SF & MF): Rent & Mtg Forbearance; 4-Rent Subdivisions

State Fiscal Health & Property Taxes



TX Ratio & Bank Failures

Logistics 2.0 & OTIFF

Retail e-Volution: AdRu and how Click-It & Pick-up evolves

ESG & Impact Investing

**“You’ve got to be very careful if you don’t know where you are going, because you might not get there.”**

# ESG even part of Rating Agency Outlooks on Public Companies

**KBRA**

**KROLL BOND  
RATING AGENCY**

**PRESS RELEASE**

## **KBRA Assigns Ratings to Hertz Vehicle Interim Financing LLC, Series 2020-1**

NEW YORK (November 25, 2020) – Kroll Bond Rating Agency (KBRA) assigns ratings to the two classes of notes issued by Hertz Vehicle Interim Financing LLC, Series 2020-1 (“HVIF 2020-1”), a delayed draw rental car ABS transaction.

Rated Notes					
Class	Maximum Aggregate Balance	Interest Rate*	Legal Final Maturity Date	Required Credit Enhancement (%)	KBRA Rating
Class A	\$3,500,000,000	3.00%	Nov 25, 2022	30.00%	A (HF)
Class B	\$500,000,000	3.75% + Supplemental Interest	Nov 25, 2022	20.00%	BB (HF)
Total	\$4,000,000,000				

\*Prior to Rapid Amortization the Class B interest rate is 9.00%

### **ESG Considerations**

KBRA ratings incorporate relevant credit factors, including those that relate to Environmental Social Governance (ESG). Credit-relevant social and environmental factors related to transactions of this type include vehicle fuel efficiency and demographic trends that could impact the value of used vehicles and residual values of the collateral. Governance factors consider the transaction’s structural features such as adherence to representations and warranties, compliance with transfer standards, segregation and application of cashflows, and bankruptcy remoteness.

<https://www.krollbondratings.com/documents/press-release/31362/kbra-assigns-ratings-to-hertz-vehicle-interim-financing-llc-series-2020-1>