The Red Shoe Economist, K.C. Conway, CCIM, CRE, MAI reveals his 2020 Naughty & Nice Elves!

How many more platitudes can media use to describe 2020 as the virtual 2021 Crystal Ball drops on Times Square? And on this New Year's Day ask the age-old physics turned philosophy question we all had to ponder in undergraduate school Philosophy 101: "If a tree falls in the forest and no one hears it, does it make a sound?" Now, apply that the drop of the Times Square ball New Year's Eve. If nobody was there to actually see it drop, did it really fall?

This year's Naughty & Nice Elves compilation was compiled from reflection on my 70+ presentations that commenced with ***"Pitcher Influences"*** January 9th to Colorado CCIMs at the University of Denver, and concluded with ***"Contrail Interpretations"*** to Illinois CCIMs December 15th. The Red Shoe Economics team also surveyed many of you. The result is a tabulation that is 1-part bipartite, 1-part facetious, one-half part retrospective, plus one-half part prospective all to provide you with a 3-part tune up for 2021.

It would be perspicuous to include Covid19, Russia, China, social media or the November elections as nefarious and naughty elves; just as it would to have Zoom, SPACs, pharmaceutical companies delivering on a Covid19 vaccine and essential workers as dependable and nice elves. This list goes beyond a keen sense of the obvious in our recognition of The Best and Worst of 2020, with a Red-Shoe and CRE concentric bias. Red Shoe Economics hopes you enjoy this year's list and that it stimulates some thinking for 2021 strategy. Thank you to all that commenced or continued a relationship with the Red Shoe Economist. The Red Shoe Economics team is looking forward to seeing you in person in 2021 and advancing our relationships.

KC will begin publishing a newsletter on timely CRE-Economic items January 11, 2021. If you would like to be added to the distribution list for the ***Red Shoe Review***, send your email address to info@RedShoeEconomics.com

Unlike 2019 when the Federal Reserve Elves walked back the 4 rate hikes of 2018, the FED was less well behaved in 2020. The nice behavior exhibited by FED Elves in March and April turned naughty by Summer as the FED moved to explode its balance sheet to $7.4 trillion the last week of 2020 by ganging up with corporate and FHFA elves while ignoring state and local government elves. Just reflect on how the Federal Reserve Balance Sheet has grown from a mere $890 billion April 2008 to $4.5 trillion December 2016, to $7.4 trillion Dec 2020. Now reflect on the Federal Reserve securities purchases in 2H2020 ($1.5 trillion of MBS up from $500 billion and $428 million in corporate bonds through mid-June as part of its so-called response to the coronavirus pandemic). But these weren't bonds at corporations that needed help or a housing industry that needed more fuel. The FED was making investments in well-capitalized companies like Coca-Cola, Microsoft, McDonald's, Walmart and a subsidiary of Warren Buffett's Berkshire Hathaway. And, these corporate bond purchases were at the expense of state and municipal bonds – except New York City transit and utility bonds – they faced dire situations under occupancy restrictions. A transaction list disclosed by the U.S. central bank in July revealed that the Fed was buying debt in 86 different companies. And these naughty FED Elves did not produce or sell any goods or services to generate the cash to make these corporate bond investments; rather, they just called their coconspirator naughty elves at Treasury to print money. And the result was a 20% increase in the Money Supply and devaluation of the U.S. Dollar. If one did not know better, one might think they were in cahoots with Bitcoin Elves. It's not coincidental that Bitcoin breached a record $29,000 per unit level to end 2020 with this type monetary policy by the FED. Maybe Bitcoin needs a Certificate of Deposit option for retirees getting no return on bank CDs due to this Naughty FED Elf monetary behavior.

FED Chair Powell's term is up in January 2022. Will President-Elect Biden reappoint him? The Red Shoe Economist thinks it is a slam dunk with former Fed Chair Yellen as Biden's pick to lead the Treasury Department. Maybe this is why the 10-Year Treasury yield has nearly doubled from its Summer low yield of 51 basis points to 93 basis points on the last trading day of 2020. The FED can't curtail the yield on the longer-term bonds and that should have been the lesson from the November 10th Treasury Bond auction when the 10-Year yield skyrocketed from the 70 basis-point range to 97 basis points with the largest 10-Yr Treasury bond auction in US history. The Red Shoe Economist sees a 10-Yr Treasury in 2021 above 1% to 1.5% - maybe even 2% - with more of this Naughty Elf behavior.

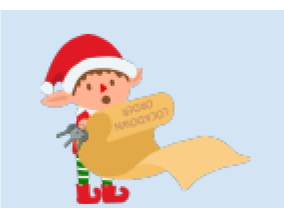
One last comment on Naughty FED Elf behavior. The Atlanta FED introduced a Commercial Real Estate Momentum Index in Q4 2020 to "better understand momentum in CRE markets across the country." It describes the CRE Momentum Index as "one of the most comprehensive quantitative market analyses publicly available providing one-of-a-kind information." Look under the hood at this Index and back at history. What one will discover is: i) This new CRE Momentum Index is repackaged Moody's Analytics and CoStar data; and ii) it is not something to partake. The Red-Shoe Economist built (along with Scott Hughes) the original CRE monitoring tool for the entire FED system in 2005-2010 known as

"REMS (Real Estate Market Spotlight). REMS was robust and relied on a wide range of primary CRE data from the likes of TREPP, RCA, MetroStudy, Dodge-Pipeline, FHFA, etc. It became a reliable tool for policy response to the 2009 Financial and Housing Crisis, developing Bank Stress Tests, pre-FOMC input, and my own briefings to FED Presidents and then Chairman Ben Bernanke. The Atlanta FED economic academics have now hi-jacked REMS, repackaged it with CoStar and Moody's Analytics data, and added a most confusing and counter-intuitive color-shaded index (yellow and orange shading indicating improving CRE conditions, while green and blue shading indicates deterioration in CRE conditions) to assert it now knows something about CRE. Don't partake in this new tool any more than the Atlanta FED's GDPNow. Neither are reliable. Note the following current footnote in the Atlanta FED's GDPNow: "In particular, GDPNow does not capture the impact of COVID-19 and social mobility beyond their impact on GDP source data and relevant economic reports that have already been released. It does not anticipate their impact on forthcoming economic reports." Really?

2. Abominable Snow Elf

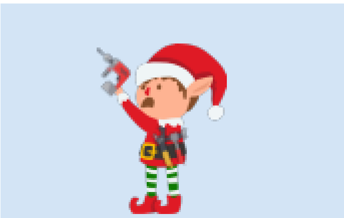
Although my commentary here will be more succinct than that for Monetary Elf, it does not make it any less significant. According to the National Hurricane Center, as of Dec. 1st (the official end of the 2020 Atlantic Hurricane Season), 2020 experienced 31 tropical depressions, of which 30 became tropical storms. Thirteen became hurricanes, including six major hurricanes. The last storm was Hurricane Iota, the ninth letter of the Greek alphabet. (The Greek alphabet is used during particularly naughty hurricane seasons when the list of names designated for the season is exhausted). 2020 was the first time that the names Eta, Theta and Iota have been used, and 2020 has passed the 2005 season for the greatest number of named storms in a season.

As shocking as those statistics are, what is relevant about them for 2021 is their impact on Property & Casualty Insurance rates. The Red Shoe Economist fears a scenario not too dissimilar to what Florida experienced after it 2005-2006 hurricane season that caused insurers to leave the state and rates to skyrocket. The 2021 legacy of Abominable Snow Elf is going to be much higher property and casualty insurance rates for homeowners and the CRE industry in 2021. Gulf region states from Texas across Louisiana and Alabama to the Panhandle of Florida are going to bear the brunt of this elf's mischief. Statista.com/statistics is a great resource to reference all things about hurricanes, property and casualty insurers, etc. We will have to wait on the final tallies for the Abominable Elf's mischief to see which storms make it into the most-costly tally. For now, the most expensive remains Hurricane Katrina in 2005 followed by Maria and Irma in 2017. Unlike New Orleans, our colleagues and U.S. Citizens in Puerto Rico are still rebuilding. Don't forget about them in 2021.



3. Lockdown Elf

The most mischievous elf of 2020 from a perspective of small businesses and parents was Lockdown Elf. If it were not for the Supply-Chain and Workforce Nice Elves, this Elf would have undercut trillions of monetary and fiscal interventions. Reflect on the damage from state and local government lockdowns. Ray Keating with the Small Business & Entrepreneurship Council (SBE Council) provided these sobering statistics on the last day of 2020: i) Small Business Revenue is down 32% YOY; ii) 29% of all Small Businesses closed in 2020 - and that figure could rise to 50% by the end of Q1 2021; and iii) these figures don't include the "Silent Failures" (those small businesses that were sole proprietorships or funded themselves from home equity or 401(k) loans where there was no bank debt or a record of business closure other than utility records. Lockdowns did not slow or disrupt the Covid19 virus, and Trump was correct in that you can't just shut down the world's largest economy without incalculable damage. Daily Covid19 cases peaked following initial lockdowns in April and May to 70,000 a day in the Summer when every state had some form of occupancy restrictions. For the month of December, Covid19 daily cases have more than tripled to the 250,000 range during more rigid lockdown orders by state and local governments in states from California to New York. How this impacts CRE is threefold. First, as small businesses close, they leave a lot of retail and restaurant space empty that has to be released or adapted for another use. Second, the lost sales tax revenue to state and local governments can be as high as 35%-42% of total revenue for state and local government – Washington State, Nevada, Arizona, Tennessee, Louisiana have the highest dependence on sales taxes with more than 40% of total state tax revenue coming from retail sales. Third, as these states and local governments realize the lost revenue impact form lockdowns, many face severe fiscal deficits. And from these fiscal deficits will come a resurgence in Chapter 9 county and municipal government bankruptcies. (More about Chapter 9 in the discussion of Chapter 9 Elf to follow).



4. Bob the Builder Elf

It may surprise some that the Red Shoe Economist has home building and housing as a Naughty Elf. It shouldn't. As early as July, I was one of the only housing economists to make note of the fact that one-in-four American households could not pay their rent or mortgage. Utilizing data from the MBA, Black Knight, FHFA, and Freddie Mac, the Red Shoe Economist published a piece in July titled: *"The housing quartile not doing so well during COVID-19."* It highlighted the struggle among a quartile of the housing sector not being talked about in media or the residential housing industry amidst the glow of higher home prices and rising sales of homes in places where urbanites were migrating. By mid-2020, 4.2 million American households were in mortgage forbearance programs and another 4.3 million were delinquent in their mortgages. On top of those figures, another 15+ million renters were also in forbearance programs or delinquent due to Lockdown Elf. In all, one-in-four American households could not pay their mortgage or rent. That was a ratio that surpassed figures from the Great Recession and began to rival the Great Depression. These figures persist at year-end 2020, and forbearance and eviction moratoriums just keep being extended – now until end of January 2021.

Bob the Builder Elf has not helped with new supply, additional affordable product, and he has continued to raise prices to new record mean levels that rose to $313,000 in November (a 16% YOY increase). We entered 2020 with a housing affordability problem that will rise to a crisis level in 2021 when all the rent and mortgage forbearance support programs are removed. It's not all Bob the Builder Elf's fault. Local government has exacerbated the problem with NIMBYism policies that prevent development of affordable housing alternatives, such as manufactured housing or higher density townhome product. One rogue Bob the Builder Elf left stranded last year on the island of misfit toys has come to market with a viable alternative known as "For-Rent Single Family." Companies like American Homes 4-Rent are thriving building affordable single-family homes for rent where MF housing is denied by local government. Look for this trend to expand in 2021, along with demand for infill land to develop 4-Rent Single Family homes in areas where home prices have risen beyond the reach of median household income workforce. It is too bad that Bob the Builder Elf has also failed to embrace manufactured housing as an alternative. Check out the performance on manufactured housing by looking a REIT such as UMH, or the GreenStreet CPPI. Manufactured Housing has been the top performing CRE property type for the past few years until industrial surpassed it here in the pandemic. One final statistic on this point from John Burns - a long-time friend and colleague who is also a highly respected housing economist. John has recently began covering 4-Rent SF housing and he recently published a piece on the topic that noted we now have as many single-family homes for rent in America as we do MF apartments – 16.4 million each. Get to work Bob the Builder. Did you not show up for the builder lesson titled "Excess profits create ruinous competition?"

5. Human Resources Elf

This elf was the one doing all the job cutting. He/she could not play well with Earnings Elf (one of this year's Nice Elves), and hung out all year with Lockdown Elf conspiring to eliminate workforce elves. HR Elf cut over 2.2 million jobs despite the stock market rising $5.0 trillion in equity value with every major stock index posting a record high on December 31: i) DOW Industrials up 196% to 30,606; ii) S&P 500 up 24% to 3,756; and iii) the NASDAQ up 18% to 12,888.

Challenger Gray is the Red Shoe Economist's go to resource keeping an eye on Human Resources Elf. What Challenger Gray revealed through November's job cuts are: i) 45% more cuts than November 2019; ii) YTD job cuts of 2.227 million – highest annual tally on record and up 300% over the 560,000 in 2019; iii) California, New York, Florida, Texas and Ohio were the top 5 states for job cuts; and iv) Entertainment, Leisure and Retail were the leading sectors shedding jobs accounting for more than half the 2.227 million announced job cuts. This elf was just plain naughty and ignored what was going on in the Corporate Earnings elf workshop.


6. Universities Elf

This Elf really disrupted our youth and hit home personally with The Red Shoe Economist having two children in college. Universities get a failing grade for how they handled Covid19 and responded to Lockdown Elf pressures. It is interesting that University Elf coaches and football programs found a way to play sports in the Fall of 2020, but University Elf teaching faculty couldn't make Zoom or remote study work for tens of thousands of students; yet they still charged full tuition rates. With one daughter in undergrad and one in graduate school, both reported professors not delivering a good Zoom learning experience to such a degree that one withdrew from college after two consecutive years of straight-A grades. The technology for remote quizzes and testing should be scraped to the land of misfit education. Tenured professors that failed to deliver a quality remote Zoom education experience ought to be "de-tenured."

There were exceptions, and I will call out two. The first is Purdue University. It is a shining exception as it announced for the tenth consecutive year no tuition hike for 2021. Most SEC universities need to plan a summer field trip to Indiana next Summer and figure out how a top-ranked university with more than 40,000 students can keep tuition costs under $10,000 per year. (Incidentally, Purdue University is a ranked the No. 5 Most Innovative University in the United States by U.S. News & World Report). And the second exception is professors Ron Throupe and Mark Levine at the University of Denver Burns School of Business. Both are nationally respected CRE experts and fellow CCIMs/CREs. What they accomplished this Fall was to maintain in-office hours to meet with students despite most other faculty opting for an all-remote experience. I know there are other shining examples, but they are the exceptions. University Elf's need to go back to school and learn how to be educators again, and University administrators and Deans need to rein in costs or we will see more university failures than bank failures in 2021, and 2022.


7. Hacker Elf

Although this Elf popped up at year-end, it has been lurking in the background of the North Pole for years. How ironic is it that he/she came to light as Solar winds in the shadows of the Aurora Borealis or northern lights for the high-altitude regions of the arctic from the North Pole to Russia? Have we not learned lessons from the previous hacks like that of Equifax just a few years ago? This hack of at least two US agencies (The Department of Commerce and the Agriculture Department) is likely more serious than first thought. As the large range of victims raises the troubling prospect that the US military, the White House, public health agencies responding to the pandemic, and every US technology company with our personal data may have been targeted by the foreign spying, too. And whose signature is all over this hack? Russia, Russia, Russia. This Hacker Elf is the real Russia story of 2020. All of us in the CRE industry depend on systems and data vendors to power everything we use to do business whether it is Argus, Site To Do Business, title companies, lenders, property management software, Microsoft products: the list goes on and on… 2021 needs to be a year we get Hacker Elf banned to the land of mischievous elves never to be played with again.


8. Chapter 9 Elf

Chapter 9 is the type bankruptcy for counties and cities. It's been a few years since we saw many of these, but like bank failures, they are back. Approximately 74 county and municipal faulted followed during the Great Recession, and the Red Shoe Economist foresees that figure being surpassed with as many as 100 to 150 filings over the next 12-24 months. (The first one has already occurred outside Birmingham AL in Fairfield). As CRE participants we need to focus on "What-If Thinking" as to the impact when a city or county goes bankrupt. Can it be traded? Can it be financed? What is its value? Red Shoe Economics will be answering these and other Chapter 9 bankruptcy questions in a special feature white-paper in 1H2020 – stay tuned as Lockdown Elf's naughtiness persists into 2021.Nuveen has done some great research on this subject and tracks municipal bond performance and local government fiscal health. Go to Nuveen for a historical perspective Chapter 9 bankruptcies.

9. Scrooge Elf

This Naughty Elf is intended to broadly cover all local, state, and federal government that failed us during the pandemic. Whether it was Congress that spent 8 months negotiating a follow up CARES fiscal recovery bill rationalizing in the end that $600 per person after Christmas was sufficient for the 10 Million unemployed, the one in four households unable to pay their rent or mortgage, small businesses, and local and municipal governments until Spring or Summer 2021 when all Americans are vaccinated? The Scrooge Elf also highlights the hypocrisy of our elected leaders who think the Lockdown Elf is for you and me while they go to hair salons, dine out, host large birthday parties, and travel for the holidays. These Scrooge Elves need a history lesson on the Greatest Generation and how they stepped up to face the challenge of a World War. And the Scrooge Elf comes in Red and Blue attire and cuts across all politics. We have all been let down by our elected leaders during 2020. I am not optimistic they will behave any differently in 2021 as I learn of how our federal agencies are bumbling the logistics of the Covid19 vaccination effort - and state elected leaders are cutting the vaccination line for a variety of specialty groups. The latest is Colorado for ski resort workers as essential due to the importance of their ski industry. Really, an outdoor activity in a youthful state over healthcare workers, elderly, teachers, etc.?

Taxing Elf began his mischief years ago and came into focus following the 2017 Trump Tax Act that limited state and local tax deductions. It became a particular issue for high-tax states in the NE and West coast. Population and business migration were underway before Covid19 to low-tax states in the South, such as Florida, Tennessee, and Texas. The virus accelerated this migration as Lockdown Elf ganged up with Taxing Elf. The Tax Foundation is a resource to see how this is playing out. Do you know which states have the highest overall tax burden? Which have the highest property taxes? Which have the most underfunded pension liabilities and most debt? If not, you need a Tax Foundation referee to help you anticipate the fouls coming your way. A Tip of the Hat to the Counselors of Real Estate for being on top of this Elf's mischief in their 2020 Top 10 CRE Issues. The #4 CRE Issue was The Consequences of Public and Private Debt on CRE by yours truly, and my fellow CRE colleague Thomas Curtin. The warning label on this piece is: "Don't read before bed as sleep will likely be disrupted." For those that thought taxes were an issue before 2020 and the pandemic, it will be one of the most defining and dividing issues of 2021 as states and local government will be under pressure to generate revenue to fill the empty revenue coffers from Covid19. Whether you are a broker, lender, investor, property manager or appraiser; property taxes will be front and center whether for property tax appeals or estimating the impact from new fees on property budgets. IREM Elf, MAI Elf and CCIM Elf may need to become new best friends for property owners in 2021. More on this in Nice Industry Association Elf to follow.

Perhaps second only to the pharmaceutical companies that developed multiple Covid19 vaccines in record time, Supply-Chain was the most critical Elf for 2020. More so than Zoom/Remote Work and Essential-Workforce Elves, Supply-Chain Elf made sure all remained stocked from staples at the grocery store to components at our manufacturing plants. Yes, there were shortages at times, but Supply-Chain Elves efficiently prioritized merchandise knowing well that most all had more than a month of toilet paper at home and those stockpiling the tissue were in cahoots with Nasty Lockdown Elf. Supply-Chain Elf highlights much of what we learned from the tariff's disruption in 2018, and prepared us for the pandemic. Complements to our ports that remained open and operational; our railroads that pivoted from record low traffic in April to record high intermodal container movements in October and November; and our Last Mile delivery companies that did not let Lockdown Elf, Hacker Elf, Scrooge Elf, Abominable Storm Elf or the rollout of a Covid19 vaccine hinder record volumes of package delivery. ShipMatrix estimates just over 3 billion packages were shipped between Thanksgiving and Christmas this year in the US, or about to 800 million more than last year. Thank you, FedEx, UPS, and US Postal Service, for a job well done. And my personal Supply-Chain standout Elf is Monmouth MREIC. Monmouth maintained a sector leading high occupancy of 99.7% at its warehouses and was the single best performing industrial REIT based on total return to stockholders in 2020. Monmouth has been a faithful Supply-Chain Elf to Santa for 60 years, and it has significantly outperformed the MSCI US REIT Index and exceeded returns on the S&P500 giving Santa's retirement fund a glow that is as bright as Rudolph's nose.

It may surprise many to know that Site Selection Elf continued to carry out his/her duties during the pandemic despite the obstacles presented by Lockdown Elf. Complements to Alabama, Tennessee, and Texas for three noteworthy wins. In May, the economic leaders of Birmingham AL were successful in a bid to attract the 2025 World Police and Fire Games; which will take place June 27 to July 6, 2025 featuring more than 10,000 first responders competing in 1,600 medal events. On the heels of hosting the World Games 2022, Birmingham hotels and restaurants will have something to 'Look Up & Forward' to post Covid19. Past 2019 CCIM President Barbara Crane and 2021 CCIM Institute President Tim Blair have been leaders in site selection in Alabama, and nationwide for the CCIM Institute. Complements to Springhill, Tennessee for winning 3rd GM electric vehicle plant. With an established auto manufacturing track record and history with GM, Tennessee will become the third location for GM to make electric vehicles – this one for the Cadillac line.

Kudos as well to San Antonio, Texas for landing a new commercial vehicle manufacturing plant by Navistar. They will invest $250 million in a new facility adding 600 jobs by 2023 resulting in a gross economic impact of $5.6 billion by 2030. And we all know the plethora of California to Texas moves announced in 2020 that commenced with Tesla and advanced to Apple and even the famed Rose Bowl. Texas is clearly doing something right, and California something wrong --when it comes to attracting and retaining companies. There are other examples, but these three examples highlight that Site Selection Elf stayed on duty during the pandemic and delivered wins for those states and economic development entities that didn't let Lockdown Elf hinder business.

This Elf is recognition of Supply-Chain, Site Selection, and evolution in adaptive reuse of closed retail buildings. Last Mile Elf has been busy trying to solve the challenge of bringing Last Mile costs below the level of 50% of total retail logistics costs. It is a problem that became amplified during Covid19 with more online everything, and more margin to Amazon to be a one-stop omnichannel and logistics provider. This Elf has stumbled onto the likely solution; the "Retail to Industrial Conversion" (RIC). RIC is a strategy of repurposing former Big-Box retail near high density population centers and logistics infrastructure to Last Mile distribution points. It is one of the topics covered in a new CCIM Ward Center Course developed by the Red Shoe Economist for the CCIM Institute. The course premiers January 2021 and is titled *Last Mile Logistics: "The Final and Most Expensive Link in the Supply Chain."* This course is the first by a CRE Industry Association to tackle the topic of Last Mile, and it goes way beyond just defining terms and providing some examples. It examines the challenges of converting a former retail building to industrial use and explores how to identify and invest in "Retail to Industrial Conversion" CRE.

CBRE Elf collaborated with Last Mile Elf in 2020 and published an inaugural report on this property trend and how CBRE is now formally tracking the transaction and conversion activity nationwide. Amazon is leading the charge in RIC activity pairing up "Retail to Industrial Conversion" investments in tandem with development of new eCommerce fulfillment warehouses. Go to CCIM.com and look for this new educational offering in January. Last Mile Elf promises it will be worth your time.

If you thought the Federal Reserve or Congress with its CARES Bill were important bridges during the pandemic, the importance of their intervention pales in comparison to that by the Federal Housing Finance Agency FHFA. This is the entity that took control of Freddie Mac and Fannie Mae during the Great Recession. It is also the entity that granted rent and mortgage forbearance during the pandemic and issued eviction moratoriums. In essence, the FHFA became the 'everything-is-free' elf with regard to housing. While there will be unintended consequences to these forbearance and eviction moratorium intervening programs, "Free Everything Elf" did more to assist essential workers and workforce decimated by Lockdown Elf from becoming homeless and creating an even bigger fiscal burden on strained state and local government. "Free Everything Elf" buoyed the housing market more than the factors cited by media, such as a lack of inventory.

The real housing story in 2020 was: 1-part urban workforce fleeing the big cities during lockdown orders in search of housing that wasn't in abundant supply in secondary cities or the suburbs and drove HPA up; and 1-part FHFA" Free Everything Elf" preventing mass evictions, foreclosures, and a collapse in home prices. Imagine how different the Great Recession would have been with mortgage forbearance.

Everything is definitely not awesome in housing, and large MSAs in high tax states where workforce and companies are fleeing will see the effects in 2021. Southern and inland states have not been dependent on "Free Everything Elf", and will be where housing is strongest in 2021, and 2022.

Aside from Florida and Texas, look to invest in states like Utah (Salt Lake is the RSE's top MSA pick for 2021), Idaho (it is now a top-10 manufacturing state), Arizona (Phoenix has all right stuff from affordability to workforce), Iowa (go discover Des Moines and the Quad Cities), Ohio (Columbus is logistics central for the Midwest), Tennessee, Alabama (Huntsville and Mobile are the next Nashville and Charleston of the South), North and South Carolina (there isn't a bad market in the Carolinas), and Georgia (housing strength). Why these states and MSAs?

The have some or all of the following characteristics: i) Affordability; ii) Workforce – Iowa is an Additive Manufacturing leader overlooked by many; iii) technology – Huntsville, Nashville and Raleigh are the emerging and affordable next-gen tech hubs; iv) logistics infrastructure with connectivity to key ports or access to one or more of the 7 Class-I railroads. Look at the new locations where Amazon, WalMart and FedEx are building warehouses, and you will find housing growth; and v) good government with low taxes and pro-business policies (Huntsville AL just received its 10th consecutive year with a AAA bond rating).

The best example of the powerful impact from a state with good government is Texas. When Tesla can announce and start construction on a new plant in the same year compared to a 5-year approval process in California; Texas and other states with good government, low taxes, and light regulatory burdens will be where the CRE opportunities and housing demand will be in 2021 and beyond.

5. Data Elf

Where would our industry or our economy be without data. Focusing on our CRE industry, there were several that made our investment activity possible and kept capital flowing. The most noteworthy from the Red Shoe Economist's perspective were **Trepp** (OMG where would we be without Trepp and the reliability of their granular data that pivot quickly to even provide new insights like LTSS – Loans Transferred to Special Servicers – that gave us MVP perspectives on L&T loans hit hardest by Lockdown Elf), **Real Capital Analytics** (RCA) who have the best CPPI (Commercial Property Price Index) and can dissect Cap Rates by property type down to the MSA level; Johns Hopkins University and their coverage of COVID19 cases (no politics and "Just the Facts"); **American Association of Railroads** and their unmatched RailTime Indicators reports and surveillance for Supply-Chain Elf; **Visual Capitalist** (nobody visualizes data better then VC); Tax Foundation (if you need to know where your state stands with regard to any tax be it Sales Taxes or Property Taxes, this is where to go), and a government one that has been invaluable to analyzing the impact of Covid19 on the Leisure & Travel Industry – **TSA Passenger Count**. There are many others I am failing to mention, such as **CompStak** (a relatively new data source that brings reliability and lease transaction data to the market that has CoStar taking notice) and of course **Red Shoe Economics.** These standout Data Elves can be of value to you in 2021.

6. Industry Association Elf

Like the Data Elf, where would our CRE industry be without the Industry Association Elves? Take time to reflect on all the areas the respective associations were proactive that kept all of us as "Essential Workers" able to serve clients. The **National Association of Realtors** (NAR) was at the forefront of every burgeoning issue from housing to 1031 Exchanges. Their team of economists led by Lawrence Yun kept housing more than home and our place of work. The **Appraisal Institute** (AI) was quick to respond to valuation issues with education and lobbying regulators to make accommodations for items like property inspections. Jim Amorin and his team at the AI never missed a beat on appraisal matters. **IREM** and its CEO Denise Froemming did the heavy lifting for property owners regarding property management issues from tenant use during lockdowns to re-opening buildings and adding touchless technology and equipment. The **Counselors of Real Estate** also remained vital and provided us with one of their best-ever Top-10 Issues reports.

And last, but not least, **NAI** and **The CCIM Institute**. They kept brokerage activity functioning. The CCIM Institute added more education offerings than ever. Both these organizations retained membership and client engagement by pivoting to remote options and keeping their conferences interactive and much more than a Zoom event. CCIM CEO Greg Fine and the CCIM Communications team delivered results. Eddie Blanton was an effective global president during the pandemic despite not being able to travel. Greg, Eddie and the CCIM Board of Directors found ways to designate new members and enable all necessary education. Finally, the respective industry associations worked collaboratively in perhaps a way they never had to before. There were no turfs or silos among industry associations. Let's hope this last point is a legacy we carry forward. Complements to all the CRE Industry Associations. We couldn't have made it through the pandemic with our businesses intact without your leadership. The Red Shoe Economist got more than promised from my dues to NAR, The Counselors, Appraisal Institute and CCIM Institute in 2020.

What can be said about the Exchange Elf (stock exchange elf) other than WOW! All three major stock indices closed at record highs. The DOW closed at a record 30,606 up 196% on the year. The S&P broke through 3,750 to close at 3,756 and up 24% for 2020. And, the NASDAQ hit 12,888 up more than 18% in 2020. One final perspective on how nice the Exchange Elf was in 2020. He increased the total equity value of stocks an incredible $5.0 trillion dollars. Don't tell the Federal Reserve, as they may go looking to tap that equity to fund their monetary mischief in 2021. And this record-breaking final day of trading for 2020 came on a Thursday – the day each week Jobless Claims are reported. The somber news was that Initial Jobless Claims remained near 800,000 (787,000 – or 3X what is customary in a normal economy); and Continuing Claims remain above 5.2 million with 10 million unemployed and another 2.2 million with job cut notices in hand for 2021. 2020 was definitely a year when the stock market performed contrarian to labor conditions. The Red Shoe Economist foresees some rebalancing of this disparity in 1H2021. Get ready for the jobs' reports from ADP, Challenger Grey and the BLS January 6, 7 and 8 respectively.

What about the other Exchange Elf you ask? The one handling all the returns from record eCommerce activity. He is going to be a very busy Elf in January and will need to be on his "Nice" behavior. Statista.com has crunched the numbers and made the best forecast for what to expect on National Returns Day. Returns have doubled over the past five years and will be a record for the 2020 holiday season.

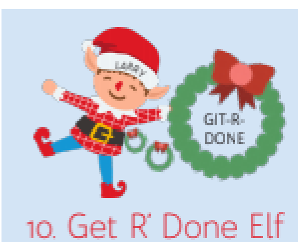
According to the FDIC, there are 5,033 banks in the US. Four closed in 2020, due in part to Covid19 related economic and loan impacts. In 2012, the FDIC began producing an annual Community Banking Study. This was largely a result of the Great Recession and disproportionate impact on community banks in both failures and regulatory impact from Dodd-Frank. The latest Community Bank Study was just published December 15, 2020. Since 2012, Community Banks have improved across all metrics from Net Interest Margin (NIM) to operating expense or efficiency ratio, and lending activity. They were healthy coming into 2020 and pre the pandemic. The purpose here is not to dissect this 2020 report because we "Don't Know What We Don't Know" yet about how the loss of so many small businesses in 2020 will disproportionately impact community banks. The inclusion of Community Banks as a Nice Elf is to recognize their extraordinary service and behavior during the pandemic in stark contrast to large banking organizations.

The community banks, like a Bank of Tampa or Synovus, stepped up in the administration of the PPP loans and sustaining credit to small businesses and households in the communities they serve. The Red Shoe Economist is concerned that problems loans may rise in community banks in 2021 as the small business carnage is tallied. Monitor the Texas Ratio for the community banks important to your community and business as a leading indicator of stress on the community bank system in 2021. I hope the Texas Ratio Elf is not one of the Nasty Elves in 2021.

We need our community banks and they serve local communities and our CRE industry in a material way. Engage with your community banker in 2021 because they were there for your community in 2020, unlike most any large banking organization.

Somebody had to keep the economy running during the pandemic and the Workforce Elf recognizes all that did just that. Healthcare and retail workers bore the brunt of the risk from the pandemic keeping us healthy and supplied while risking themselves and their families to the virus every day they showed up to work. It was easy for workers like me to work safely from home with Zoom, but it wasn't the same for first-responders, factory workers, teachers, dock workers, truck drivers, etc. And our women workforce took a disproportionate hit to their careers and income to take care of young children or family when schools were impacted by Lockdown Elf. According to new year-end 2020 data from the Brookings Institution, the National Women's Law Center and even the Census Bureau, <u>an estimated 2.0 million women have been forced to leave the workforce due to the pandemic</u> for a variety of reasons from childcare to job loss given women are disproportionately in roles that can't be done remotely or via Zoom.

To put that number in perspective<u>, it almost equates to the 2.2 million job cuts being reported nationwide by Challenger Grey</u>. **It is so significant that this recession is being labeled a "she-cession**." There will be papers written for years on the impact to workforce from this pandemic. Many types of jobs will be eliminated from advances in technology tools, like Zoom. Students will be set back from bad behavior by University Elves that failed to deliver education, internships, assistantships, etc. It's not enough of a college experience to play football. And women will have been set back in careers disproportionately to men. For now, thank you to the Workforce Elves that stepped up and made sure 2020 was not a year without Santa Claus.



This elf recognizes everyone who somehow got through 2020, and a pandemic. It recognizes parents that juggled remote work, and remote school. It recognizes first responders and essential workers showed up for work putting our needs above their own. It recognizes community and economic leaders that kept site selection and economic development alive and had successes in places like San Antonio, Salt Lake, Birmingham and Huntsville AL, Springhill, TN, etc. It recognizes our data partners that kept us informed and unhacked, such as Trepp, RCA, CompStak, AAR.org, Visual Capitalist, Tax Foundation, JHU, etc.

It recognizes our industry associations that worked collaboratively to keep us "essential workers" and amend programs vital to clients such as 1031 Exchanges. A lot got disrupted in 2020, but a lot got done. And that is maybe the best retrospective epithet for 2020. I will proffer a prospective message for 2021 that comes from one I developed early in the pandemic back in April: **<u>Look Up & Forward and Engage in What-If Thinking</u>.**" We don't' know what we don't' know yet about the unintended consequences from this pandemic. **Wishing all of you the very best in 2021**.

The Red Shoe Economics Team

Beverly Keith, CCIM, CRX; Karen Mankowski, CCIM, LEED-AP; K.C. Conway, CCIM, CRE, MAI

KC will begin publishing a newsletter on timely CRE-Economic items January 11, 2021. If you would like to be added to the distribution list for the ***Red Shoe Review***, send your email address to info@RedShoeEconomics.com