Leveraging Corporate Earnings Reports for CRE Analysis

K.C. Conway, MAI, CRE, CCIM
Chief Economist, CCIM Institute
Director of Research, Alabama Center for Real Estate

MODERATOR
Eddie D. Blanton, CCIM
2020 President, CCIM Institute
“Life is like a camera. Focus on what's important. Capture the good times. And if things don't work out, just take another shot.”

Ziad K. Abdelnour
President & CEO, Blackhawk Partners
Top Five Corporate Earnings Insights

- The New Normal Is Behavioral Analysis
- “A Pretty Interesting Time to Throw Some Bait in the Water”
- COVID-19 Is Changing Everything
- Zoom-ing to the Suburbs
- Retail and Hotel e-Volution Is Accelerating Along With Logistics
Corporate Earnings Examples

- PROLOGIS
- MREIC
- Marriott
- Southwest
- weight watchers
- Walmart
- HOME DEPOT
- The Container Store
Corporate Earnings Insight #1: The New Normal Is Behavioral Analysis

As companies suspend forward guidance, focus on their behavior and earnings statements. Only Pepsi and Pfizer gave solid forward guidance.

The recommended formula to capture the behavior is:

• 1-part quit looking for forward guidance – it’s not there. Companies are too uncertain at this time to forecast anything.

• 1-part psychology. Start looking for the behavior to tell you about CRE impact.

• 1-part testing. Test your behavioral observations against economic and property-level data, like CRE transaction activity or rising jobless claims.
Corporate Earnings Insight #2: “A Pretty Interesting Time to Throw Some Bait in the Water”

Clients will be asking, “Is now the time to be looking at CRE assets while they are on sale?” The earnings statements will help up with a “look up and forward” view as to what 2021 might look like.

Corporate earnings lead economic data by six to 12 months. For example, Weight Watchers reported that its experiential retail model went from 75% face-to-face to 75% digital in less than one quarter with record subscriber growth and record customer satisfaction ratings. *What does that foretell for gyms and other experiential retail?*

Do “what-if” thinking around Zoom Zumba or “family night” virtual gaming. What is the re-pricing of CRE with less density. *Maybe telemedicine or supply-stock warehousing are the AdRu for COVID-wrecked retail?*
Corporate Earnings Insight #3: COVID-19 Is Changing Everything

Companies Are Telling Us Now How Business Models, CRE Usage, and Valuations of CRE Will Change.

• Accelerated e-commerce in retail does not mean the end of the physical store. *Comp store sales rose in Q1 for Home Depot, Walmart, and Target.*

• Container Store revealed a new “Click It & Pick Up” site selection criteria in its Q1 earnings. Will other retailers follow suit with “Click It & Pick Up” impacting their site selection and type space to occupy? What legacy stores become functionally obsolete?

• Connect the behavior revealed in earnings to how our CRE investment community needs to rethink: site selection, market analysis, demand/absorption analysis, density ratios in office and restaurants, expense ratios, and occupancy costs.

• Container Store and Chick-fil-A are two forward-thinking companies whose behavior is changing the CRE game.
The Fastest Growing and Declining Retail Brands

Corporate Earnings Insight #4: Zoom-ing to the Suburbs

- Homebuilders like DR Horton are experiencing it as revealed in its Q1 earnings.
- Equifax notes it, too, labeling it “redundancy cost.”
- What are the implications for MSAs, property taxes, infrastructure needs, and public transit as site selection criteria in a post-COVID-19 world? AdRu your expertise and build your skill set in property tax as it relates to the impact COVID-19 is having on CRE and valuations.
- College towns are a unique market that will require a lot of rethinking. The casual dining companies and small to midsize MSAs with the highest ratio of self-employed residents are especially impacted by COVID-19 era. Why?
- Adaptive reuse needs to skyrocket in both cities and suburbs.
Corporate Earnings Insight #4: Zoom-ing to the Suburbs

Small and Midsize Metros with the Most Self-Employed Workers

<table>
<thead>
<tr>
<th>SMALL CITIES</th>
<th>PERCENT*</th>
<th>MIDSIZE METROS</th>
<th>PERCENT*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Bend-Redmond, OR</td>
<td>18.9%</td>
<td>1. Naples-Immokalee-Marco Island, FL</td>
<td>18.3%</td>
</tr>
<tr>
<td>2. Barnstable Town, MA</td>
<td>18.8%</td>
<td>2. Santa Rosa, CA</td>
<td>16.7%</td>
</tr>
<tr>
<td>3. Santa Fe, NM</td>
<td>18.0%</td>
<td>3. North Port-Sarasota-Bradenton, FL</td>
<td>14.3%</td>
</tr>
<tr>
<td>4. Prescott, AZ</td>
<td>17.5%</td>
<td>4. McAllen-Edinburg-Mission, TX</td>
<td>14.1%</td>
</tr>
<tr>
<td>5. St. George, UT</td>
<td>17.0%</td>
<td>5. Asheville, NC</td>
<td>13.8%</td>
</tr>
<tr>
<td>6. Punta Gorda, FL</td>
<td>16.8%</td>
<td>6. Santa Maria-Santa Barbara, CA</td>
<td>13.8%</td>
</tr>
<tr>
<td>7. Sebastian-Vero Beach, FL</td>
<td>16.7%</td>
<td>7. Eugene, OR</td>
<td>13.5%</td>
</tr>
<tr>
<td>8. Hilton Head Island-Bluffton-Beaufort, SC</td>
<td>15.6%</td>
<td>8. Port St. Lucie, FL</td>
<td>13.4%</td>
</tr>
<tr>
<td>10. Medford, OR</td>
<td>14.1%</td>
<td>10. Visalia-Porterville, CA</td>
<td>12.7%</td>
</tr>
<tr>
<td>11. Santa Cruz-Watsonville, CA</td>
<td>13.9%</td>
<td>11. Bridgeport-Stamford-Norwalk, CT</td>
<td>12.5%</td>
</tr>
<tr>
<td>13. Tyler, TX</td>
<td>13.3%</td>
<td>13. Deltona-Daytona Beach-Ormond Beach, FL</td>
<td>12.4%</td>
</tr>
<tr>
<td>14. Grand Junction, CO</td>
<td>12.6%</td>
<td>14. Ocala, FL</td>
<td>12.4%</td>
</tr>
<tr>
<td>15. Napa, CA</td>
<td>12.2%</td>
<td>15. Cape Coral-Fort Myers, FL</td>
<td>12.2%</td>
</tr>
</tbody>
</table>

*Percentage of workers who are self-employed

https://www.zerohedge.com/geopolitical/these-are-cities-most-self-employed-workers?
Corporate Earnings Insight #5: Retail and Hotel e-Volution Is Accelerating Along With Logistics

HOTEL
• Look at earnings statements by hotel brands like Marriott and Hilton – but don’t forget the related leisure & travel and other airport-centric brands like Hertz.
• Imagine no valet service, complete digital check-in, a phone app room key, sealed room entry after cleaning, and you make the bed from a package of sealed linens. And an average daily occupancy that’s 50-60% max vs. 65-80% pre-COVID. *What’s the value per room now? Is new construction feasible?*

WAREHOUSE
• Prologis and MREIC are reporting bullish outlooks.
• But the really interesting story comes from ELGI, an India-based global company making air compressor equipment, revealing the less-told tale about supply chain complexities and weaknesses. Its earning statements details the need for the evolution of logistics and supply chain.
FUTURE TECHNOLOGIES
Percentage of retail, manufacturing and logistics professionals who are currently investing in the following

- Warehouse automation: 55%
- Predictive analytics: 47%
- Internet of things: 41%
- Cloud logistics: 40%
- Artificial intelligence: 38%
- Blockchain: 28%
- Autonomous vehicles: 22%
- Machine-learning: 16%
- Fulfilment robots: 16%
- 3D printing: 11%
- Augmented reality: 10%
- Drones: 7%
- Crowd-sourced delivery: 7%
- Virtual reality and digital twins: 6%
- Delivery robots: 4%

61% of professionals expect capacity requirements to increase over the next year.

49% of warehouse and distribution centre managers say they still use mostly manual processes in order fulfilment.

50% of large global companies are expected to be using AI, advanced analytics and IoT in supply chain operations by 2023.

30% of operational warehouse workers will be supplemented, not replaced, by collaborative robots by 2023.

https://www.visualcapitalist.com/supply-chains-automation-future/
Transportation and Logistics Indicators

TSA Checkpoint Travel Numbers
https://www.tsa.gov/coronavirus/passenger-throughput

North American Freight Rail Traffic & U.S. Rail Intermodal Units Reports
https://www.aar.org/

The Cass Freight Index®
https://www.cassinfo.com/freight-audit-payment/cass-transportation-indexes/cass-freight-index
What to Look for in Corporate Earnings Statements: A How-To

STEP 1: Select one or two free sources that monitor the earnings releases, like Seeking Alpha, StockEarnings.com, or MREIC.reit.

STEP 2: Identify the companies relevant to your local MSA and/or tenants.

STEP 3: Focus on the earnings call transcript and the accompanying slide deck (if available). This info is usually housed on the corporate website under Investors Relations.

STEP 4: Like an appraisal, don’t read the front end of the transcript or boilerplate items required by SEC and legal; go to the end for the Analyst Q&A.

STEP 5: Do “what-if” thinking around the information in the Analyst Q&A as to how an answer or data point impacts CRE. For example, Container Store’s new “Click It & Pick Up” criteria for site selection will determine which stores will be closing or renewing leases.
Access the full Commercial Real Estate Insights series

www.ccim.com/insights