

# Columbus, Lender Lunch

Hosted by SouthState Bank

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Manager



**Commercial Loan Credit &  
Pricing Trends  
For 2Q 2024**

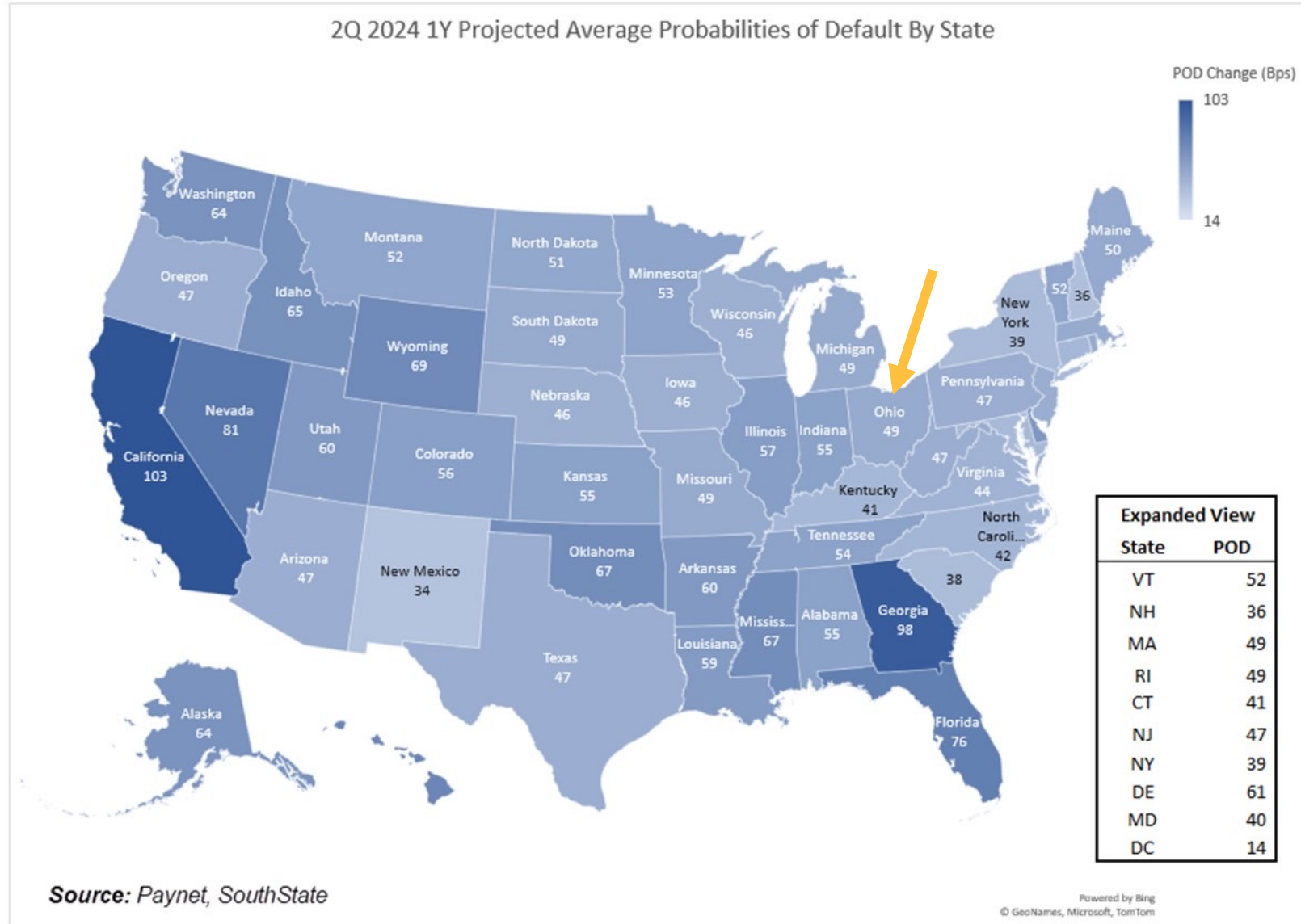
- Pricing/risk data and risk-adjusted profitability data from Loan Command aggregates for 1Q to date through 6/11/24.
- Commercial real estate sector performance data from CoStar as of 6/11/24.
- C&I /owner-occupied probabilities of default and loss given default based on PayNet (Equifax) model using 1Q data.



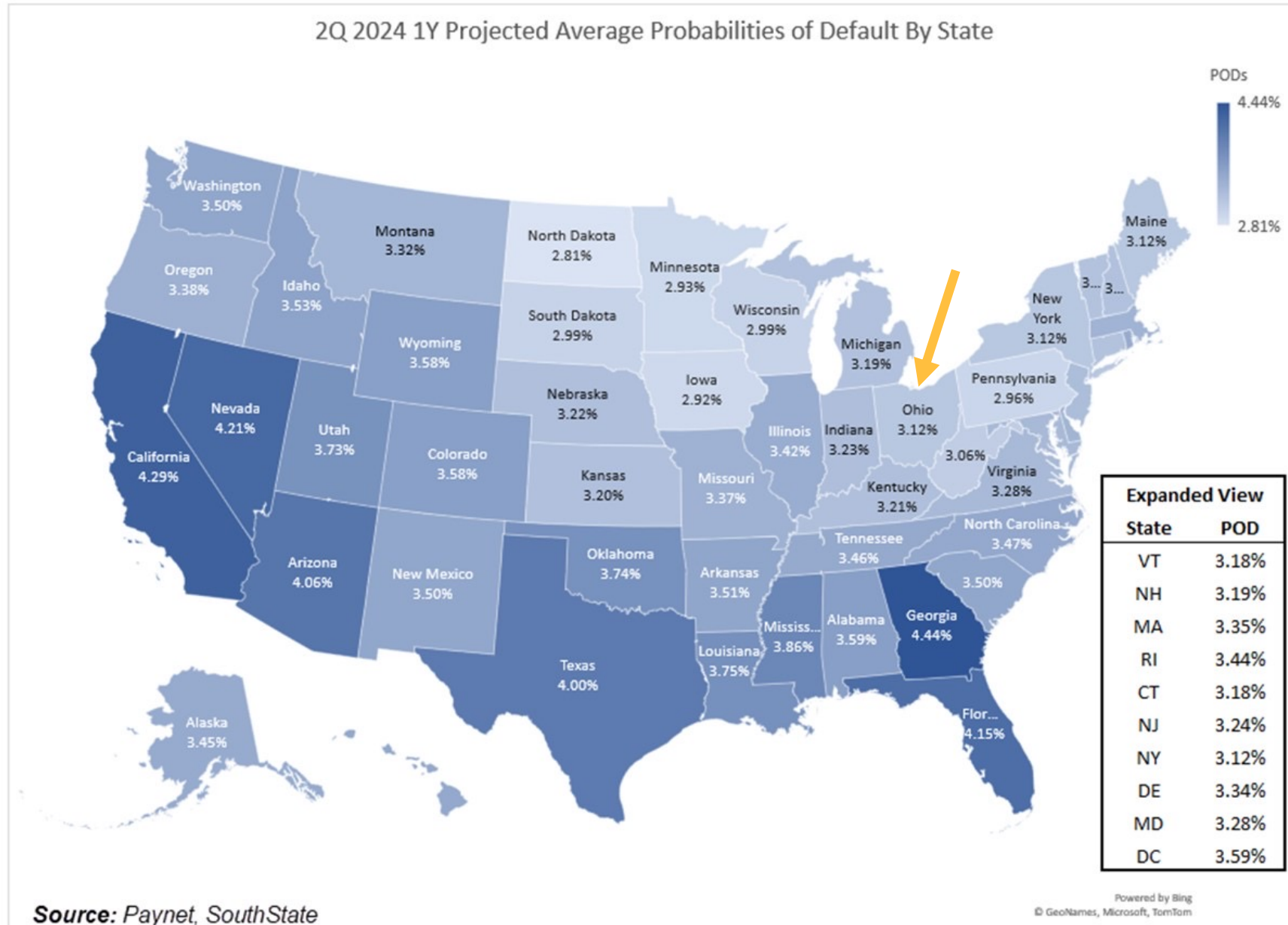


- Push out of recession and rate cuts – focus on inflation
- Slowing pace of Fed balance sheet runoff starting in June
- Office risk rising but could be OK
- Increasing cost of funds & credit risk dropping ROEs
- Investing in America stimulus loan (and deposit production)

# Geographical Credit Change



# Geographical Credit Conditions Forecast



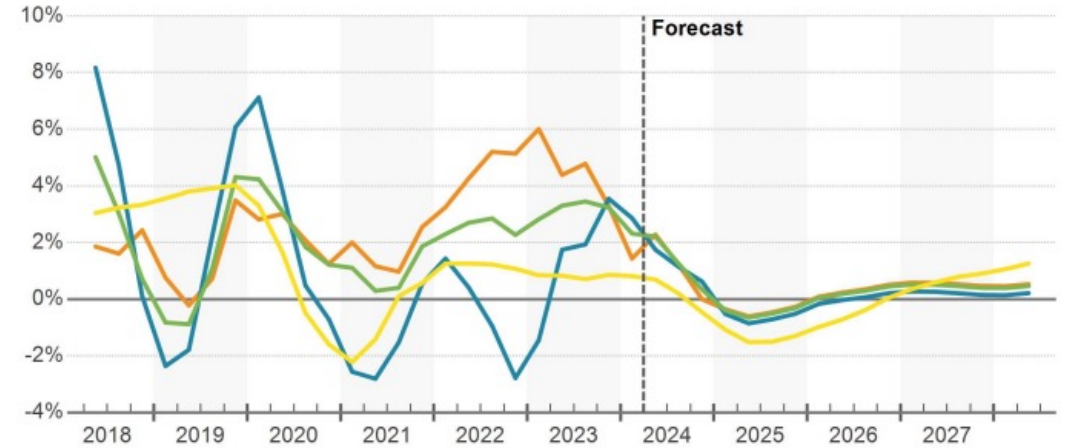
# Office



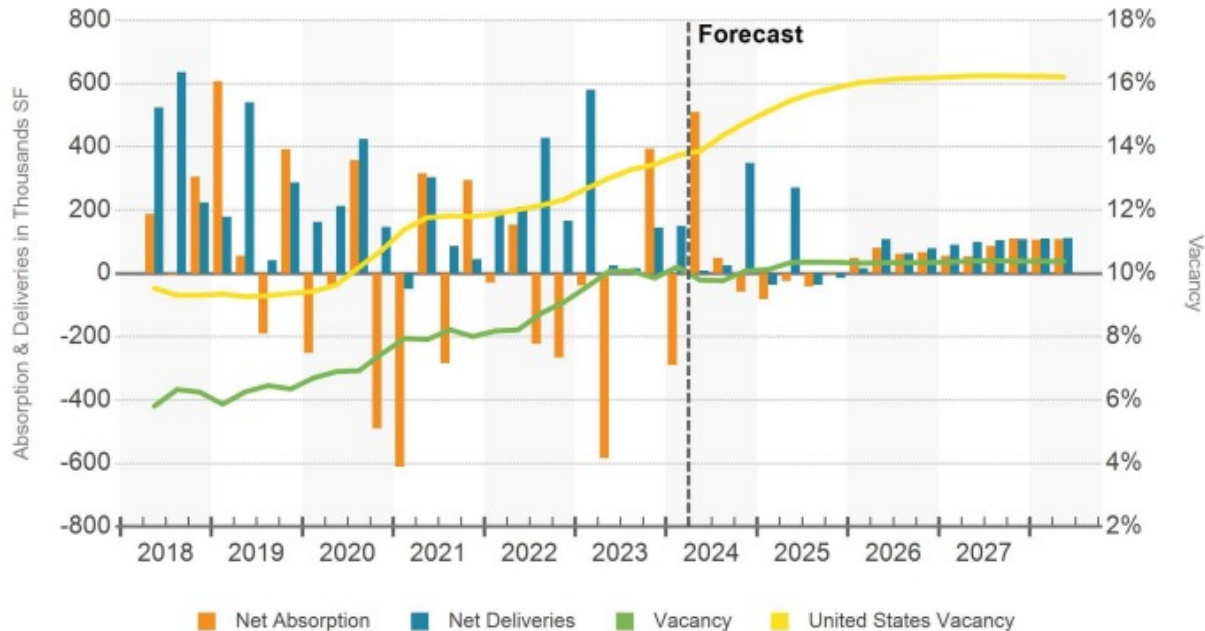
Due to a comparatively limited amount of deliveries and positive net absorption, Columbus has performed better than the rest of the nation when it comes to expected office performance.

	Historic	Current	5Y Forecast
Rent Growth	0.8%	2.3%	0.4%
Vacancy Rate	8.6%	9.8%	10.3%

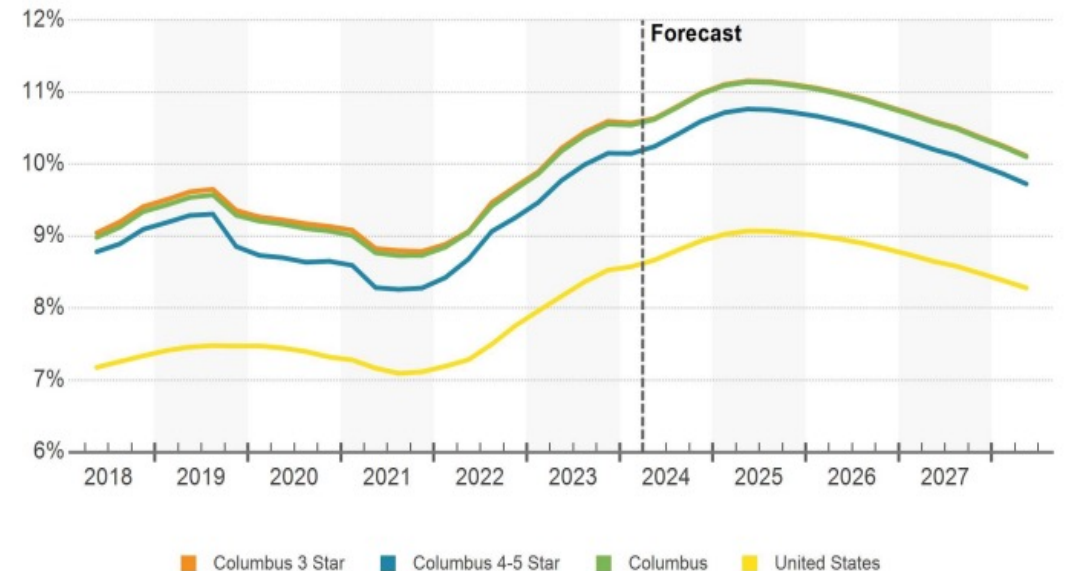
MARKET ASKING RENT GROWTH (YOY)



NET ABSORPTION, NET DELIVERIES & VACANCY



MARKET CAP RATE



- Looking at transit, cell phone and office control data, office usage has stabilized and even improved slightly over last year.
- However, usage is in the 40% to 65% range. Or about 50% of pre-pandemic levels.
- **45% of the office space has yet to come up for renewal**
- Forecasting the “peak day” syndrome
- LTV lower than last recession



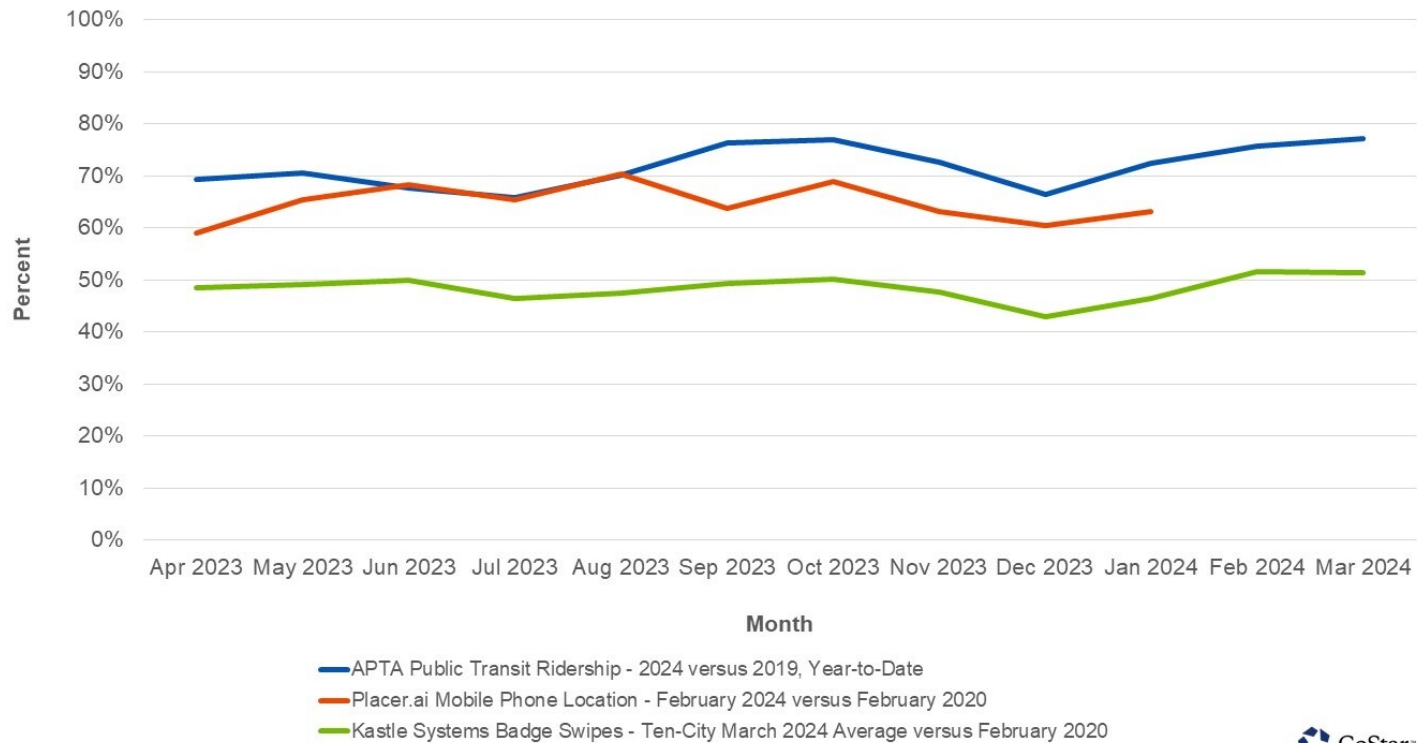
If at risk – Restructure NOW!!!





## Office Attendance Stabilizes

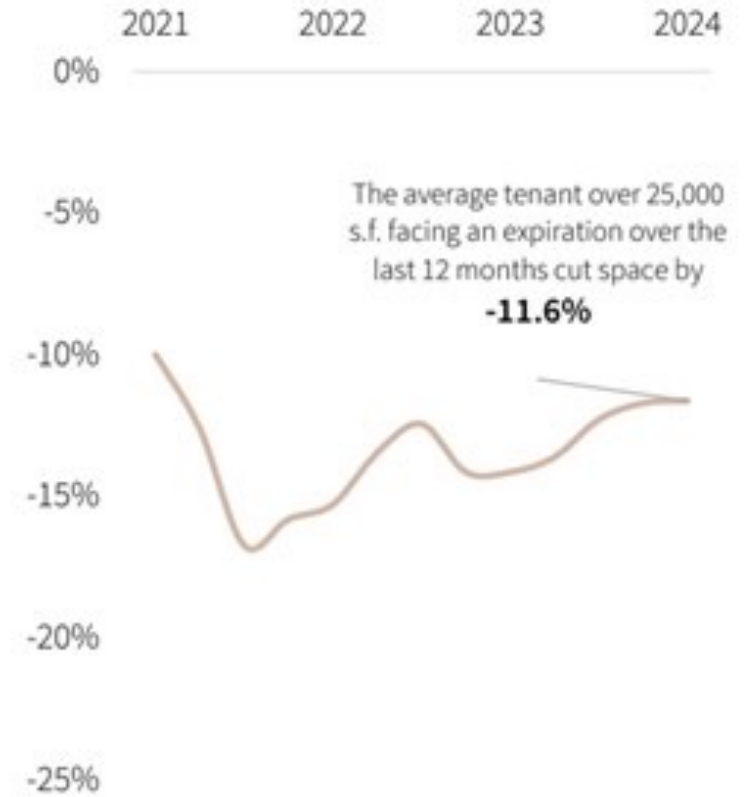
Office Attendance Indicators, 12-Month National Trend



Sources: American Public Transit Association (APTA), Placer.ai, Kastle Systems, May 2024



## Downsizing rate for major tenants

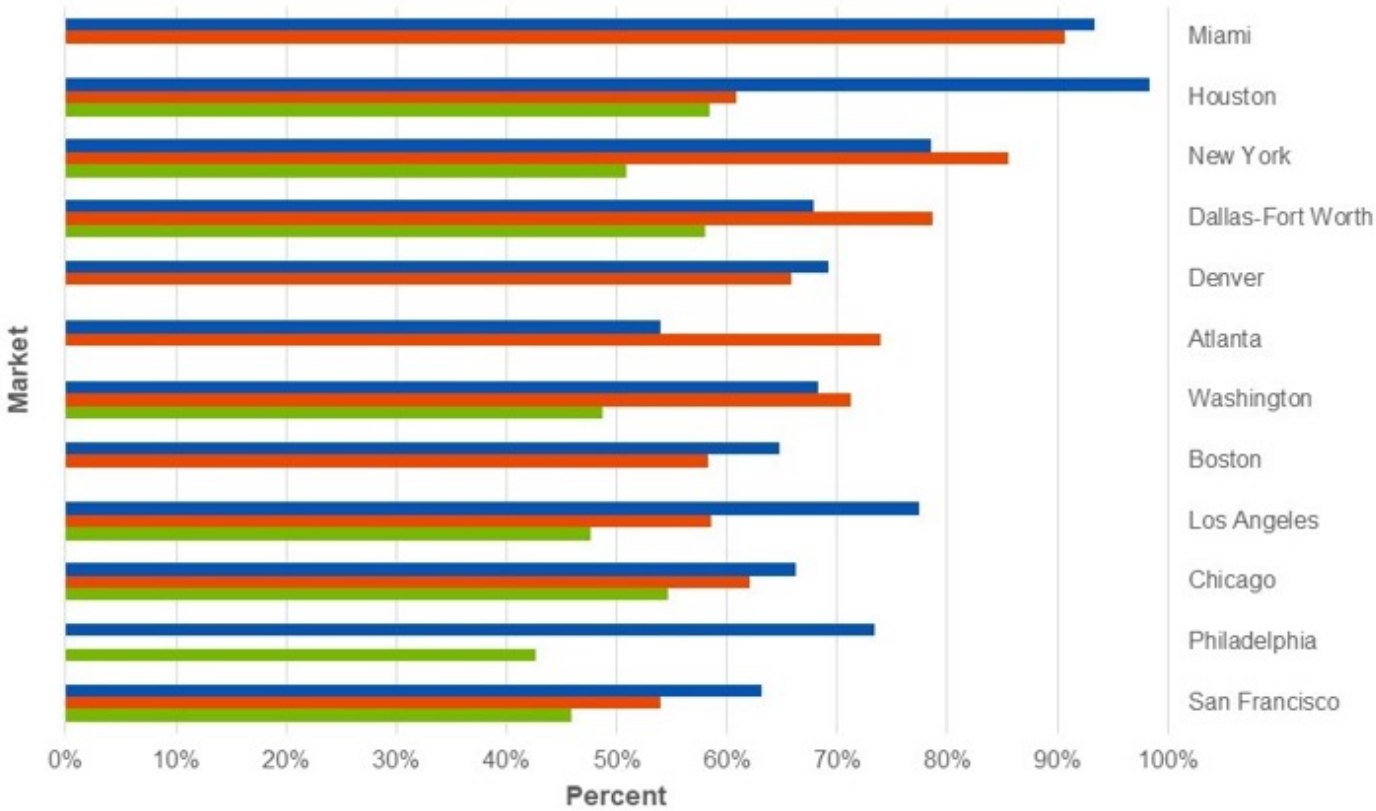


Source: JLL Research

Note: Includes tenants above 25,000 s.f. with a single office location in the market. Excludes tenants who downsized by more than 50% or expanded by more than 50%. N = 1,362

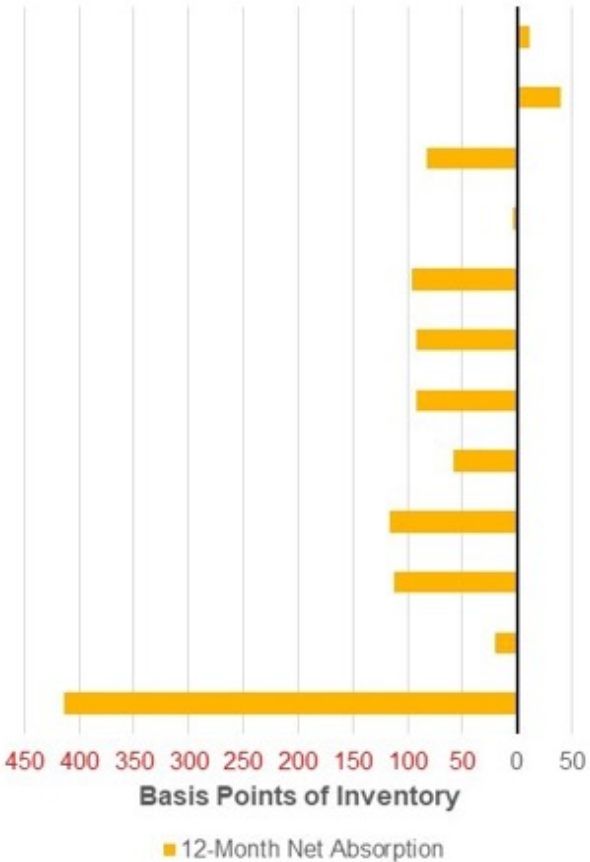


### Office Attendance Indicators



- APTA Public Transit Ridership - 2024 versus 2019, Year-to-Date
- Placer.ai Mobile Phone Location - February 2024 versus February 2020
- Kastle Systems Badge Swipes - March 2024 Average versus February 2020

### Change in Office Demand, April 2023 to March 2024



Sources: American Public Transit Association (APTA), Placer.ai, Kastle Systems, CoStar, May 2024

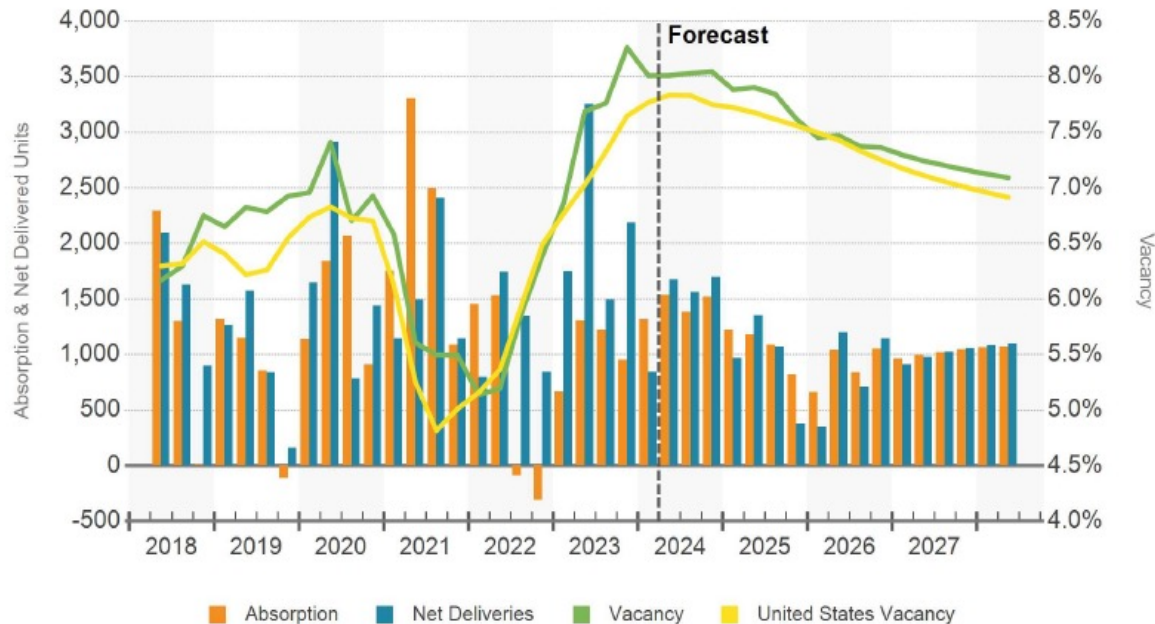
# Multifamily



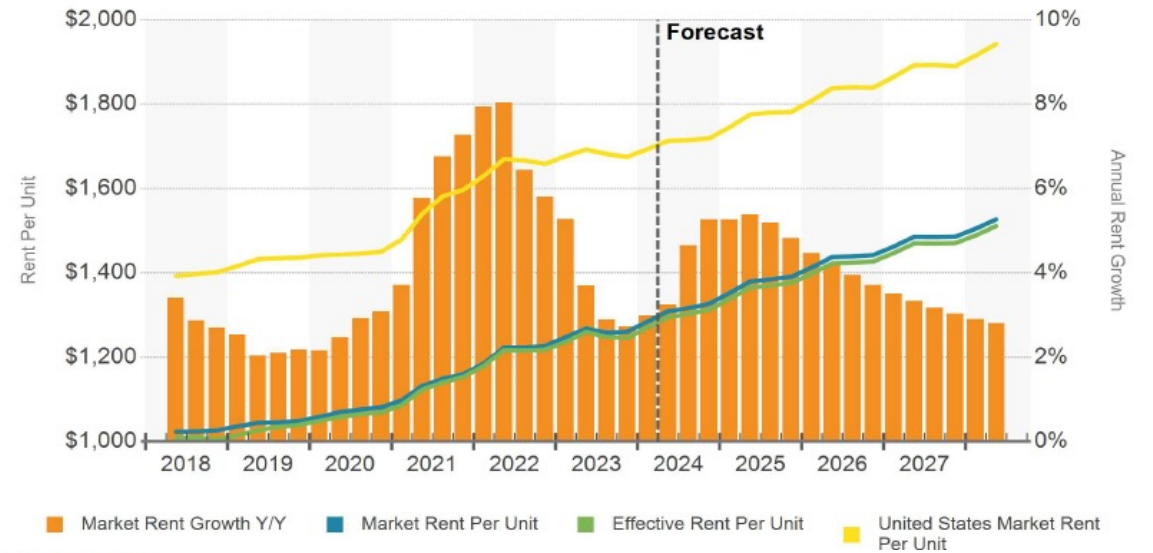
Vacancies tightened in the first quarter of 2024 and demand outpaced supply for the first time in two years. This suggests that the market is stabilizing following a record-breaking year for supply.

	Historic	Current	5Y Forecast
Rent Growth	2.1%	3.1%	3.8%
Vacancy Rate	6.9%	7.7%	7.5%

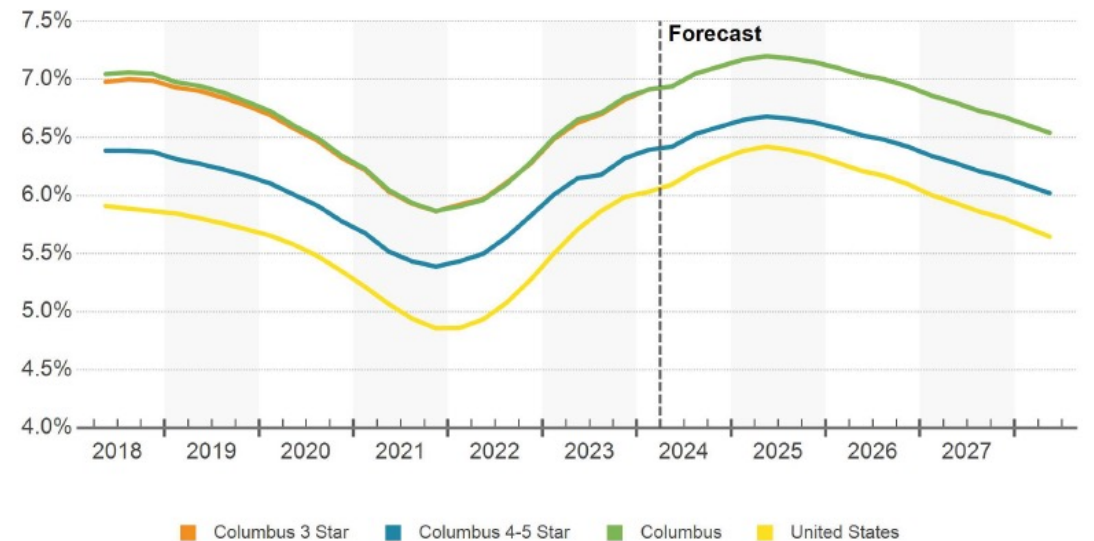
## ABSORPTION, NET DELIVERIES & VACANCY



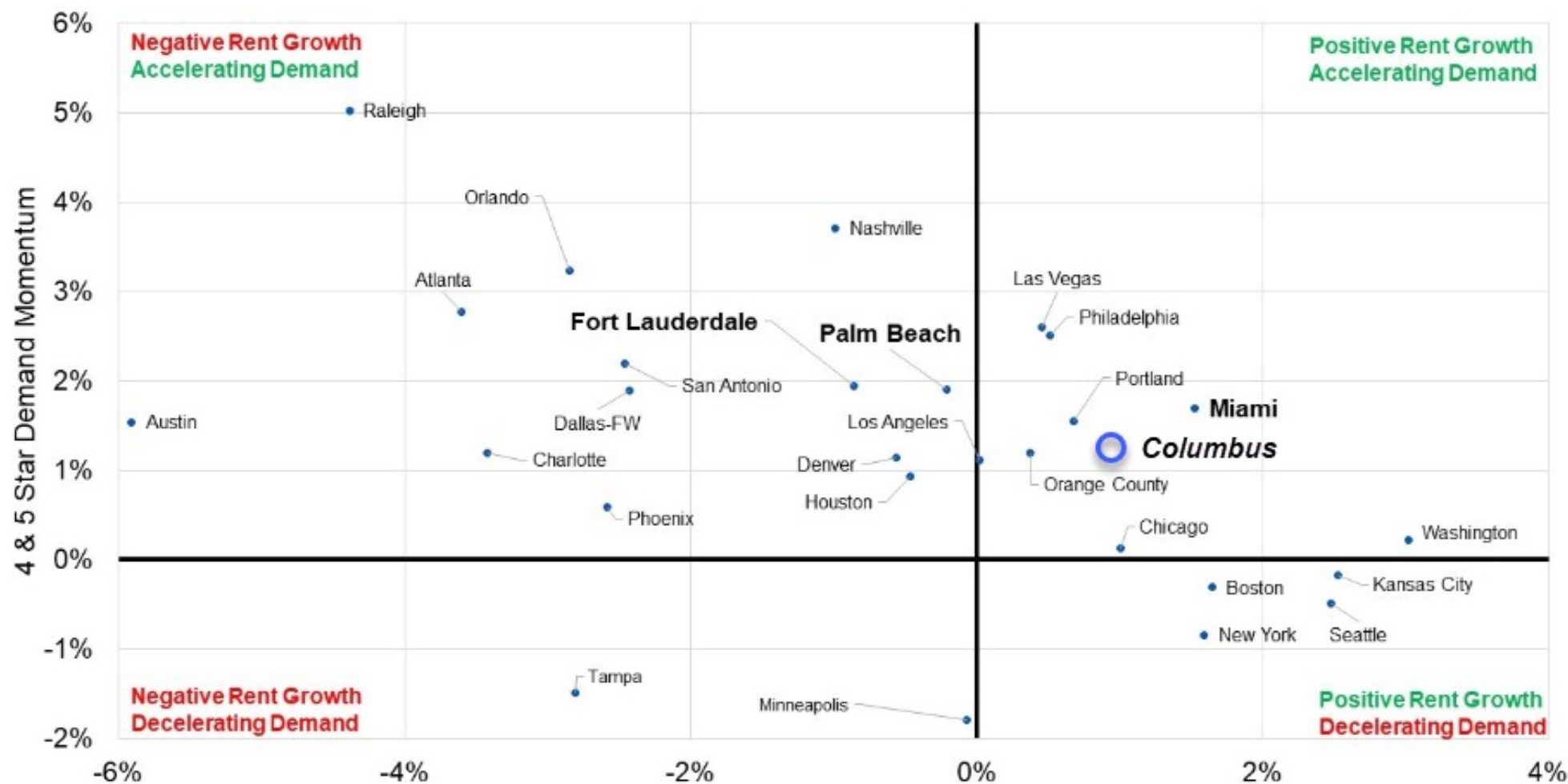
## MARKET RENT PER UNIT & RENT GROWTH



## MARKET CAP RATE



# Multifamily Rent Growth and Demand



4 & 5 Star Annual Effective Rent Growth, Q2 2024

Source: CoStar, As of June 2024

Note: Demand momentum is defined as the change in annual demand growth between Q2 2024 and Q2 2023. The largest 25 multifamily markets are shown along with all South Florida markets.



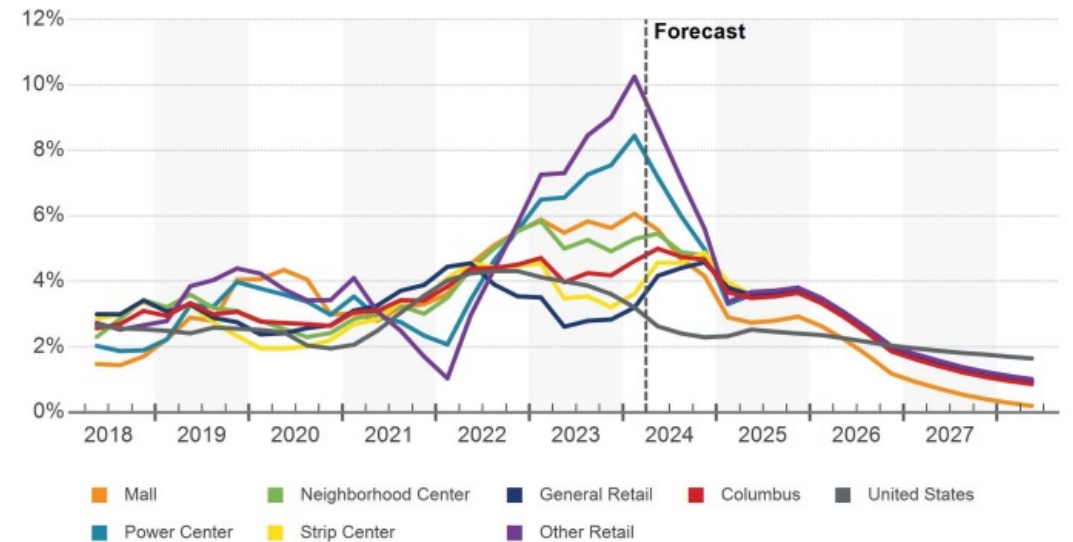
# Retail



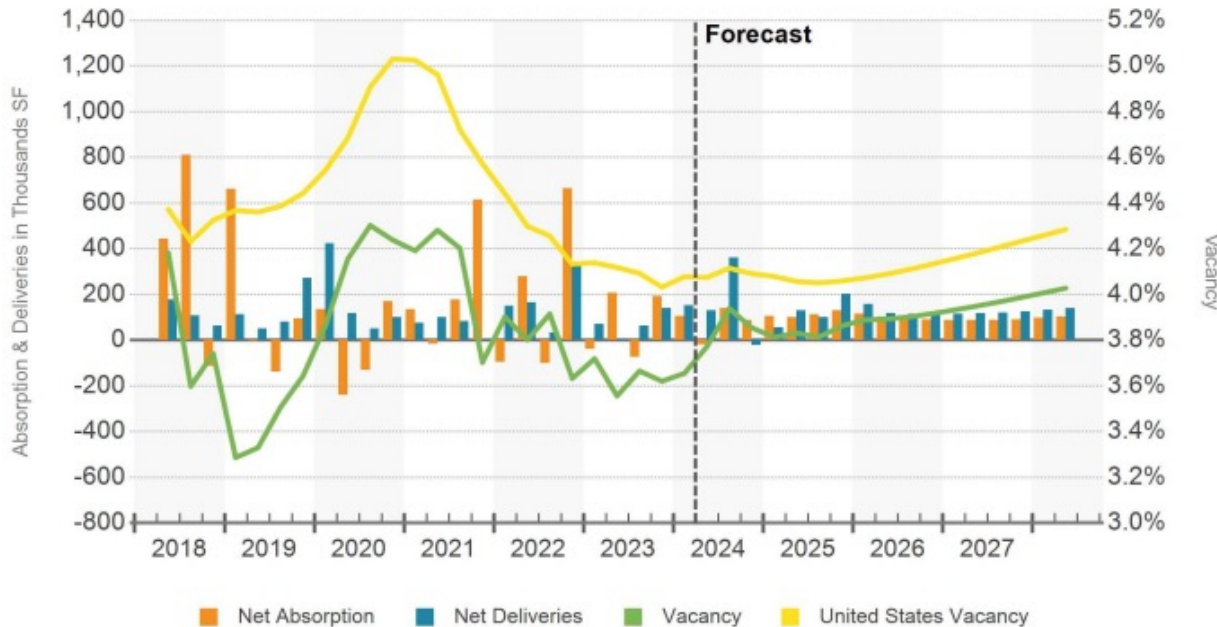
A tight consumer market has kept the Columbus retail market healthy as demand for the space, along with the lows in construction have pushed the vacancy rates down.

	Historic	Current	5Y Forecast
Rent Growth	2.0%	4.7%	2.4%
Vacancy Rate	5.6%	3.8%	3.9%

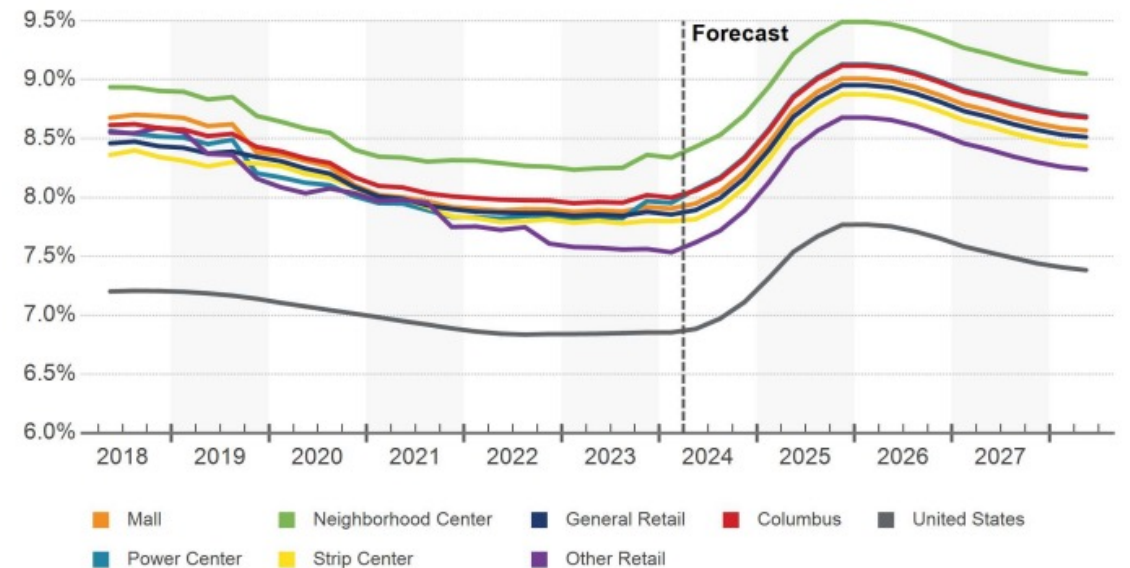
MARKET ASKING RENT GROWTH (YOY)



NET ABSORPTION, NET DELIVERIES & VACANCY



MARKET CAP RATE



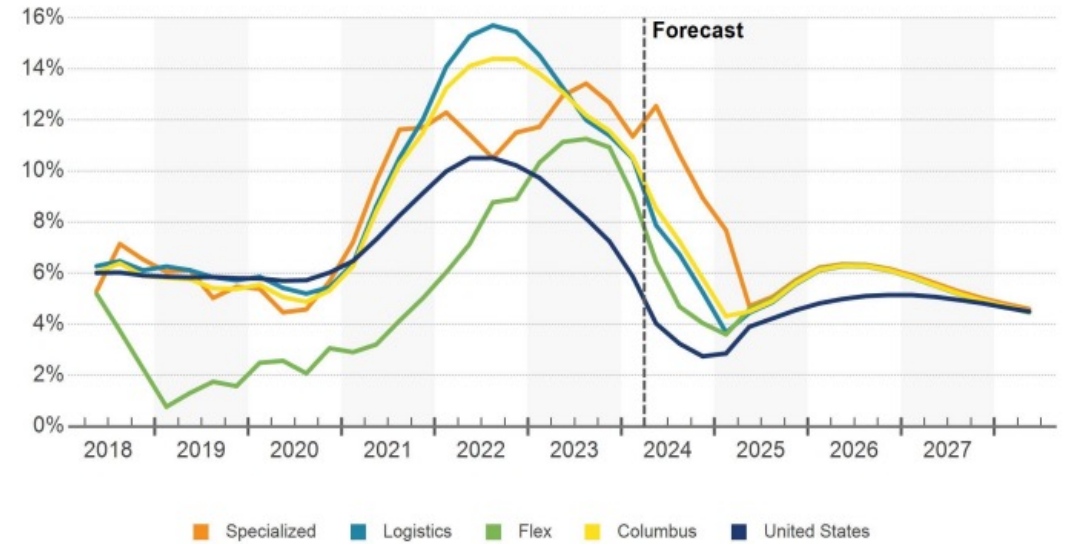
# Industrial



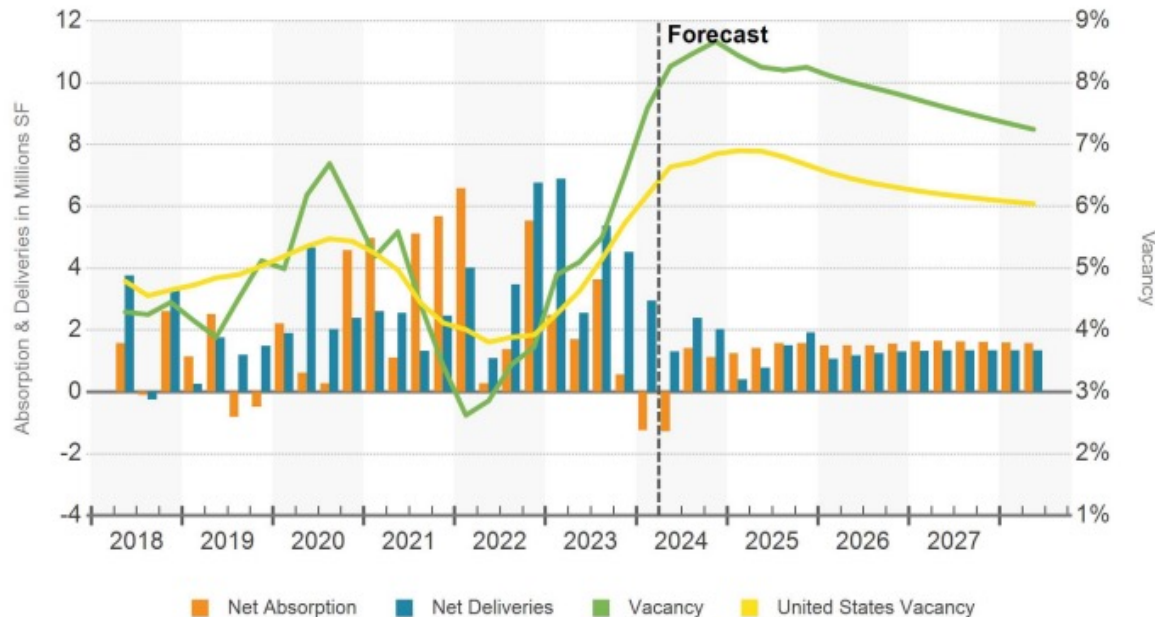
In Columbus, the rise in vacancy continues to outpace that of the nation, however certain signs such as constructions trends point to a potential stabilization in late 2024.

	Historic	Current	5Y Forecast
Rent Growth	3.3%	8.8%	5.4%
Vacancy Rate	7.5%	7.9%	7.8%

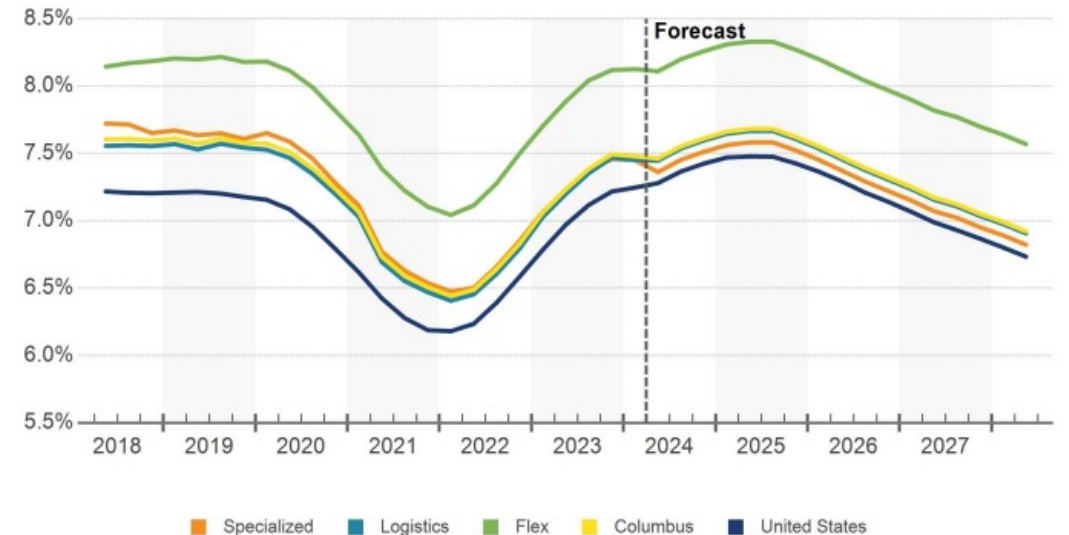
MARKET ASKING RENT GROWTH (YOY)



NET ABSORPTION, NET DELIVERIES & VACANCY



MARKET CAP RATE



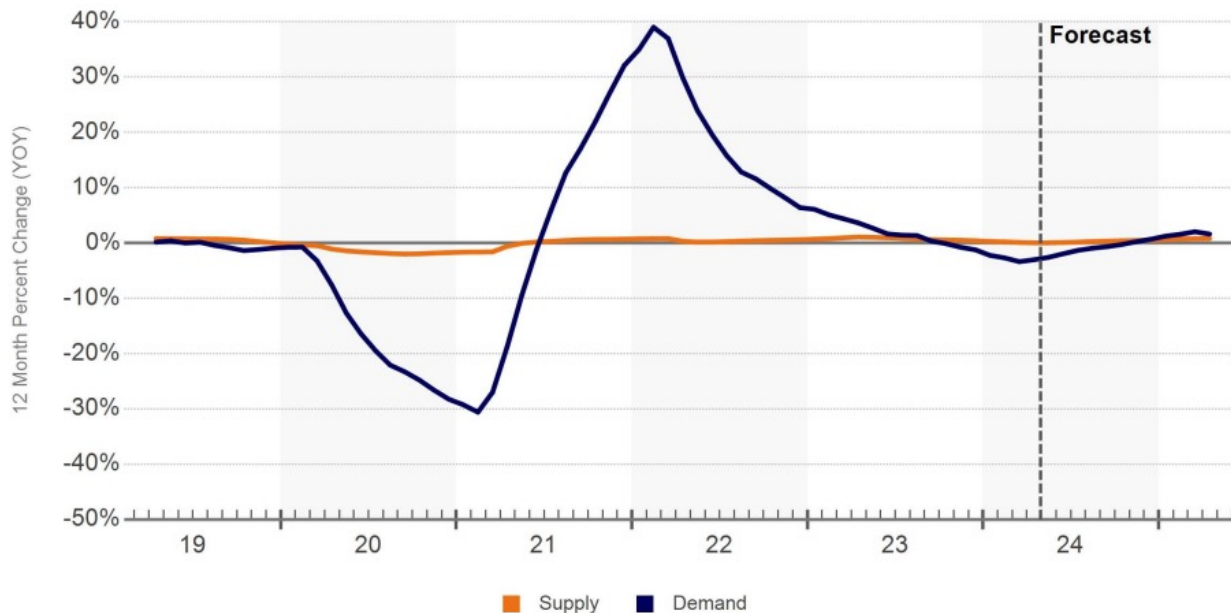
# Hospitality



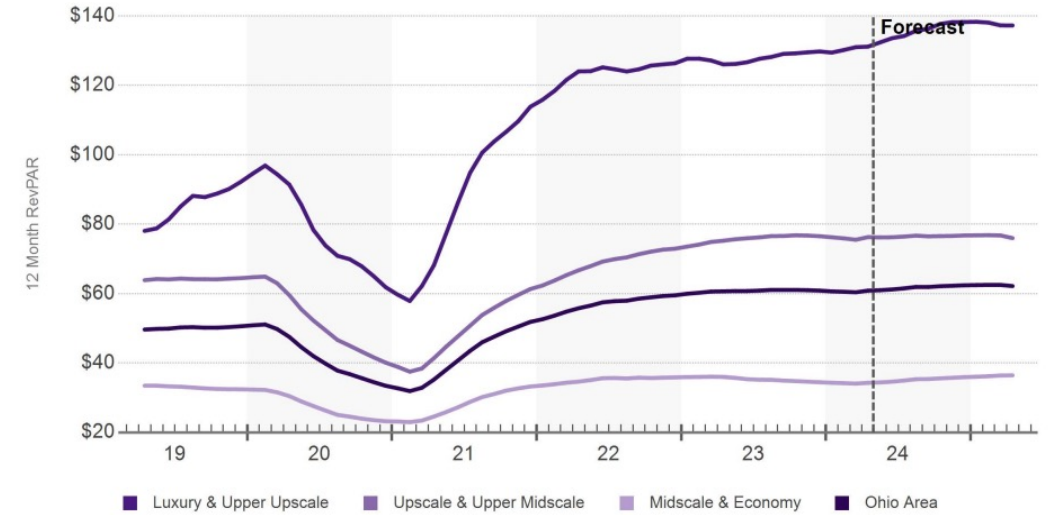
Columbus' hospitality market seems to be seeing a handful of uncommon lows, between occupancies, hotel trading and employment. This will be interesting to monitor as the nation trends in a less aggressive manor.

	Historic	Current	5Y Forecast
Occupancy	52.1	56.3%	55.1%
RevPar Chg.	4.2%	9.9%	2.0%

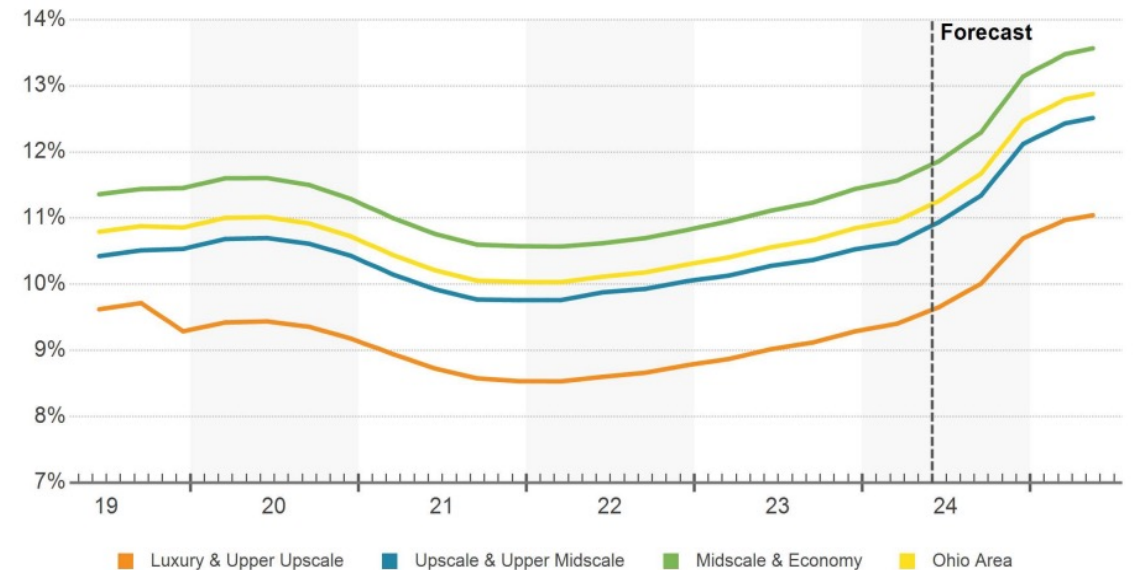
## SUPPLY & DEMAND CHANGE



## REVPAR BY CLASS



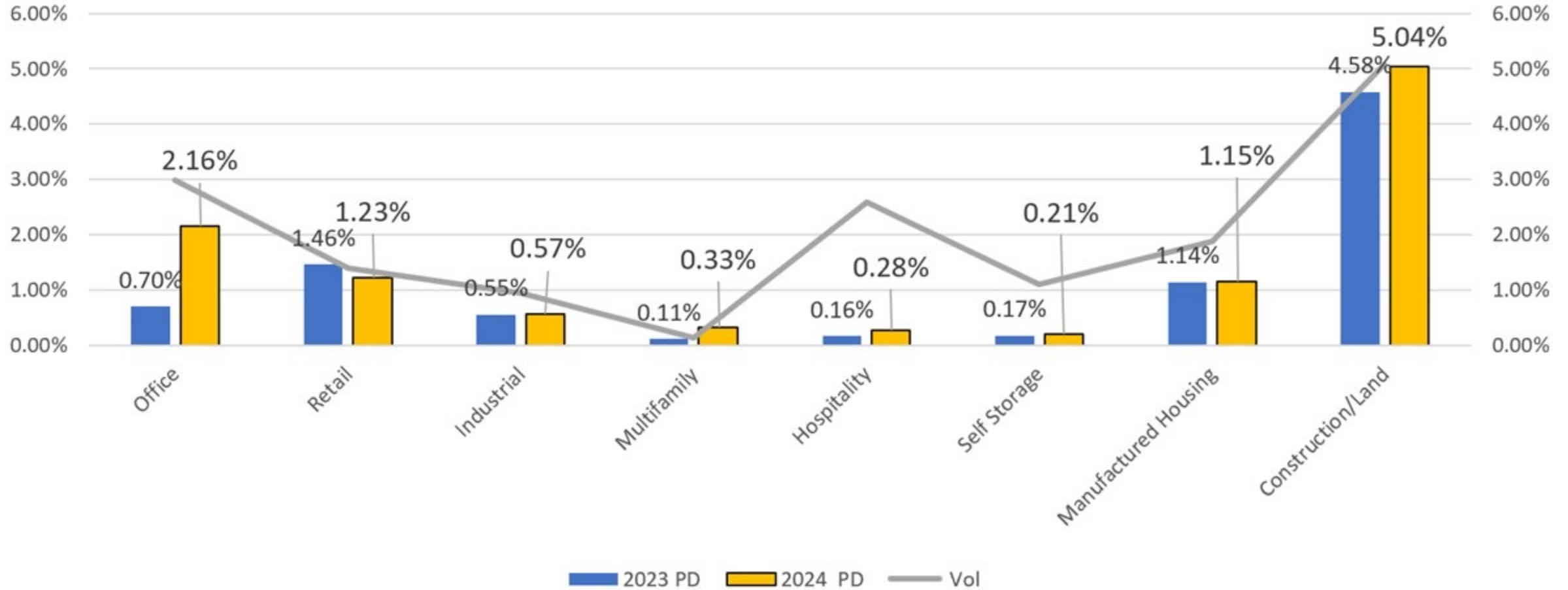
## MARKET CAP RATE



# Industries That Are Decreasing in Credit Risk (1Q 2024)



Investor Owned CRE Probabilities of Default by Sector





# Industries That Are Increasing in Credit Risk (2Q 2024)



Ohio Bottom 30 Industries Where Credit Risk is Highest 3Q 2024						
Rank	Description	NAICS	APD	YOY bp Chg.		VOL
				In POD	In POD	
387	Tobacco Manufacturing	3122	3.80%	77	20%	1.99%
388	Waste Collection	5621	4.10%	28	7%	2.00%
389	Scenic and Sightseeing Transportation, Land	4871	4.29%	-47	-11%	2.00%
390	Child Day Care Services	6244	3.85%	39	10%	2.04%
391	Apparel Accessories and Other Apparel Manufacturing	3159	3.76%	-65	-17%	2.05%
392	Taxi and Limousine Service	4853	4.25%	17	4%	2.07%
393	Transit and Ground Passenger Transportation	485	4.35%	32	7%	2.10%
394	Interurban and Rural Bus Transportation	4852	4.64%	68	15%	2.19%
395	Pipeline Transportation of Natural Gas	4862	4.55%	39	9%	2.20%
396	Deep Sea, Coastal, and Great Lakes Water Transportation	4831	4.60%	65	14%	2.22%
397	Pipeline Transportation	486	4.64%	41	9%	2.26%
398	Water Transportation	483	4.65%	57	12%	2.26%
399	Vending Machine Operators	4542	4.13%	132	32%	2.28%
400	Other Transit and Ground Passenger Transportation	4859	5.26%	99	19%	2.55%
401	Electronic Shopping and Mail-Order Houses	4541	4.81%	30	6%	2.62%
402	Inland Water Transportation	4832	5.07%	59	12%	2.63%
403	Special Food Services	7223	5.19%	42	8%	2.65%
404	Other Pipeline Transportation	4869	5.27%	47	9%	2.69%
405	Couriers and Express Delivery Services	4921	6.12%	162	26%	2.83%
406	Couriers and Messengers	492	6.15%	153	25%	2.88%
407	Support Activities for Transportation	488	6.09%	86	14%	3.01%
408	Local Messengers and Local Delivery	4922	6.28%	92	15%	3.07%
409	Support Activities for Rail Transportation	4882	6.49%	175	27%	3.20%
410	Other Support Activities for Transportation	4889	6.70%	112	17%	3.28%
411	Transportation and Warehousing	48-49	7.08%	103	15%	3.55%
412	Specialized Freight Trucking	4842	7.47%	105	14%	3.68%
413	Urban Transit Systems	4851	7.69%	160	21%	3.82%
414	Freight Transportation Arrangement	4885	7.81%	107	14%	3.92%
415	Truck Transportation	484	7.95%	114	14%	4.02%
416	General Freight Trucking	4841	7.99%	114	14%	4.05%

# Industries That Are Decreasing in Credit Risk (2Q 2024)



Ohio Top 30 Industries Where Credit Risk is Lowest 3Q 2024						
Rank	Description	NAICS	YOY bp Chg.		YOY % Chg.	
			APD	In POD	In POD	VOL
1	Aquaculture	1125	1.08%	5	5%	0.46%
2	Poultry and Egg Production	1123	1.16%	11	9%	0.48%
3	Fishing, Hunting and Trapping	114	1.26%	4	3%	0.50%
4	Fishing	1141	1.26%	4	3%	0.50%
5	Greenhouse, Nursery, and Floriculture Production	1114	1.21%	18	15%	0.50%
6	Fruit and Tree Nut Farming	1113	1.20%	21	18%	0.51%
7	Oilseed and Grain Farming	1111	1.23%	16	13%	0.52%
8	Sheep and Goat Farming	1124	1.24%	28	23%	0.52%
9	Vegetable and Melon Farming	1112	1.23%	19	15%	0.52%
10	Animal Production and Aquaculture	112	1.24%	11	9%	0.53%
11	Crop Production	111	1.26%	17	13%	0.53%
12	Agriculture, Forestry, Fishing and Hunting	11	1.29%	15	12%	0.54%
13	Other Crop Farming	1119	1.30%	18	14%	0.55%
14	Cattle Ranching and Farming	1121	1.29%	15	12%	0.55%
15	Other Animal Production	1129	1.39%	13	9%	0.59%
16	Justice, Public Order, and Safety Activities	922	1.95%	-11	-6%	0.61%
17	Justice, Public Order, and Safety Activities	9221	1.95%	-11	-6%	0.61%
18	Sawmills and Wood Preservation	3211	1.63%	-60	-37%	0.63%
19	Support Activities for Animal Production	1152	1.52%	18	12%	0.63%
20	Timber Tract Operations	1131	1.50%	2	1%	0.64%
21	Forging and Stamping	3321	1.61%	-13	-8%	0.65%
22	Support Activities for Crop Production	1151	1.57%	19	12%	0.66%
23	Public Administration	92	2.13%	-5	-2%	0.67%
24	Executive, Legislative, and Other General Government Support	921	2.14%	-5	-2%	0.67%
25	Executive, Legislative, and Other General Government Support	9211	2.14%	-5	-2%	0.67%
26	Administration of Environmental Quality Programs	924	2.09%	-4	-2%	0.67%
27	Administration of Environmental Quality Programs	9241	2.09%	-4	-2%	0.67%
28	Monetary Authorities-Central Bank	521	1.82%	-43	-24%	0.68%
29	Monetary Authorities-Central Bank	5211	1.82%	-43	-24%	0.68%
30	Depository Credit Intermediation	5221	1.79%	-1	-1%	0.68%

# 2Q Pricing Trends - Summary



- Nominal spreads increased 2 bps due to lower credit supply, increased demand and deposit pressure. Average SOFR-equivalent credit spread for community banks is currently 2.55%.
- Target risk-adjusted ROE remained at 16%.
- Actual risk-adjusted ROE is 16.1% so far for the quarter.
- The average through-cycle probability of default (POD) is 0.49%, down 2 bps. from 1Q 2024. POD volatility is flat in 2Q and remains low at 0.27%.
- Expected loss given default increased 1.5% percentage points to 44.0% (due to higher cap rates).
- Average community bank portfolio expected loss increased 7bps to 0.28%, or well within bank reserve levels.
- Loan growth is projected at 7.7% in 2024, up from 7.1% from last year.

# Pricing by Grade and Loan Size



	Credit Rating	Suggested Target Spread	Actual Spread (@ Booking)	Difference (Bps)	Difference %	Target ROE	Actual ROE (@ Pricing)	Difference	Difference %	Comments
	1	1.91%	2.22%	0.31%	16%	16%	14%	⬇️ -3%	-16%	Spreads decreased by 2bp due to more competition for better collateralized loans (sub 50% LTV)
	2	2.25%	2.43%	0.18%	8%	16%	15%	⬇️ -1%	-8%	Spreads increased by 3 bps QoQ.
	3	2.55%	2.55%	0.00%	0%	16%	16%	⬇️ 0%	-1%	Spreads remained flat to 1Q
	4+	2.65%	2.79%	0.14%	5%	16%	16%	⬇️ 0%	-1%	Spreads increased by 9 bps due to greater pricing power.

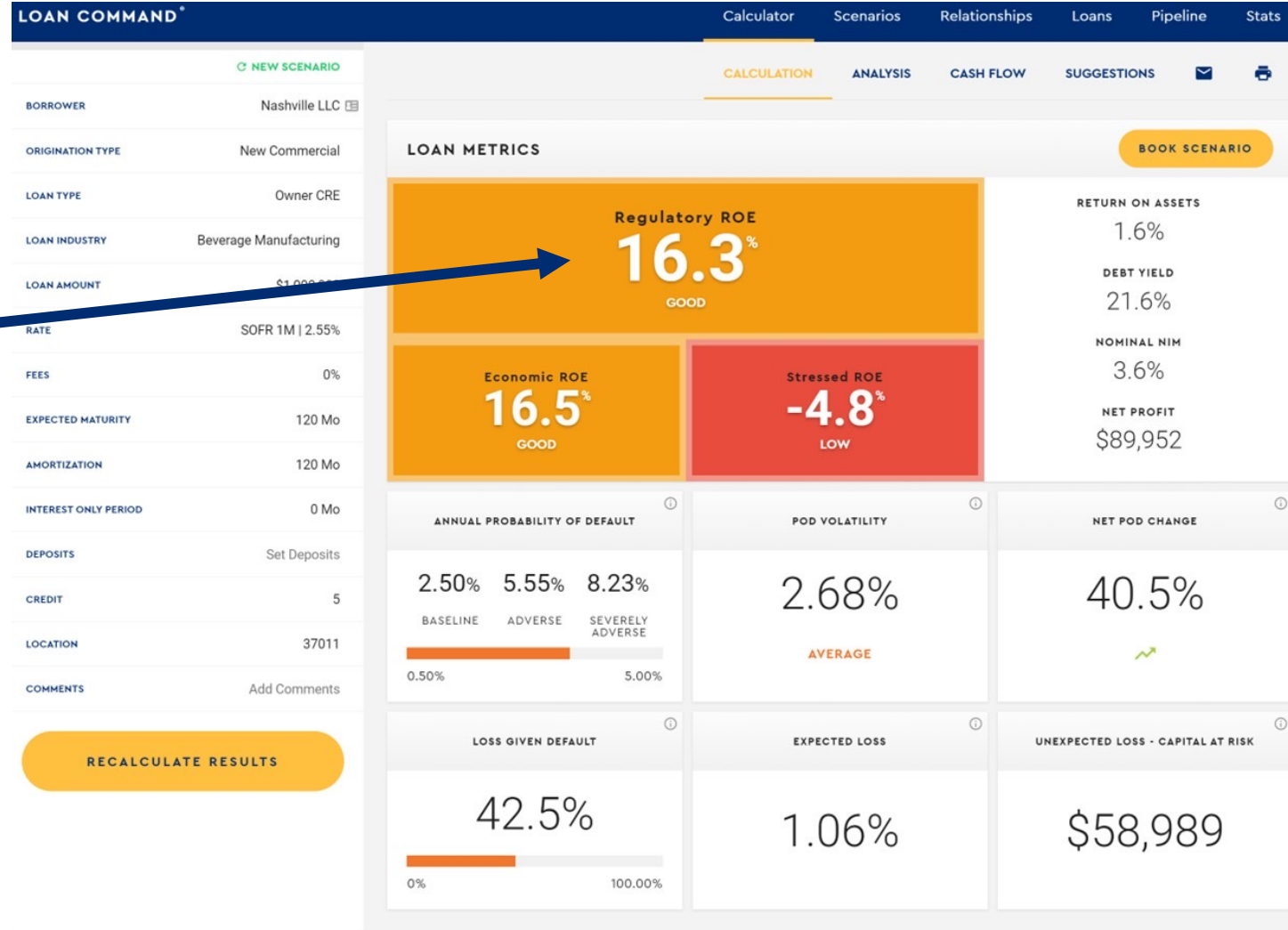
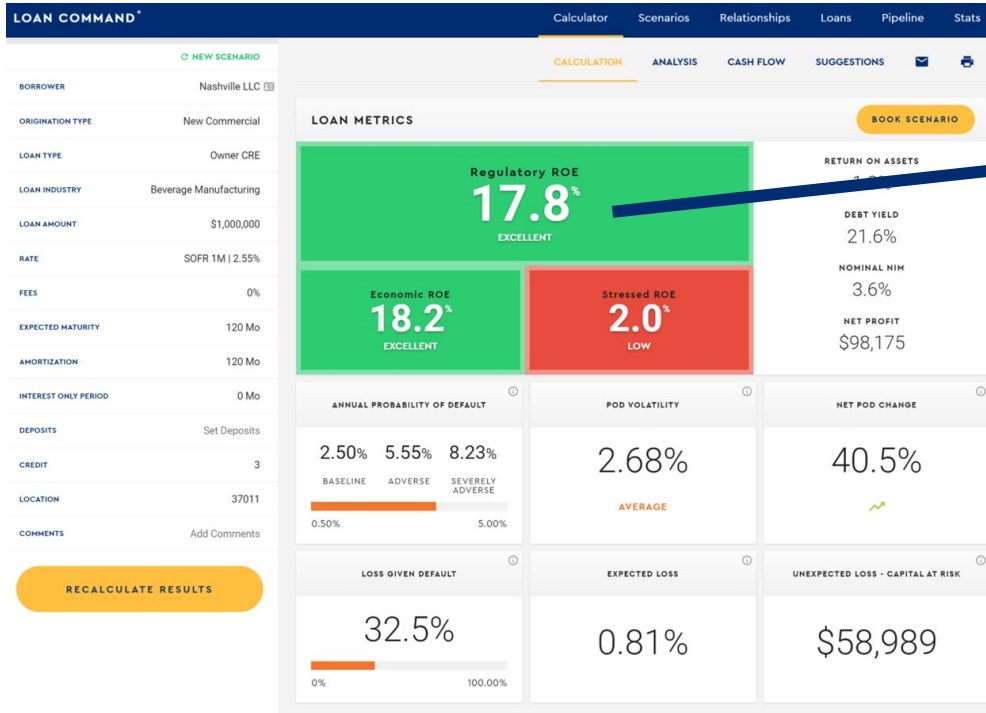
	Loan Size	Suggested Target Spread	Actual Spread (@ Booking)	Difference (Bps)	Difference %	Target ROE	Actual ROE (@ Pricing)	Difference	Difference %	Comments
	\$50k to \$500,000	3.25%	2.69%	-0.56%	-17%	16%	10%	⬇️ -6%	-39%	Industry is underpricing small loans
	\$500,000	2.75%	2.69%	-0.06%	-2%	16%	14%	⬇️ -3%	-16%	Slightly underpriced
	\$1,000,000	2.55%	2.67%	0.12%	5%	16%	17%	⬇️ 1%	3%	Increase of 16 bps
	\$2,000,000	2.50%	2.56%	0.06%	2%	16%	16%	⬇️ 0%	1%	This remains the most competitive area but banks are showing discipline
	\$3,000,000	2.43%	2.39%	-0.04%	-2%	16%	15%	⬇️ -1%	-7%	
	\$4,000,000	2.40%	2.32%	-0.08%	-3%	16%	14%	⬇️ -2%	-10%	
	\$5,000,000	2.38%	2.35%	-0.03%	-1%	16%	15%	⬇️ -1%	-5%	Decrease of 1 bps.
	\$10,000,000	2.35%	2.48%	0.13%	6%	16%	18%	⬇️ 2%	13%	This area is down 4 bps from last quarter

# Pricing By Loan Type



	Target Spread	Actual Spread (@ Booking)	Difference (Bps)	Difference %	Target ROE	Actual ROE (@ Pricing)	Difference	Difference %	Comments
<b>NOOCRE</b>									
Office	2.65%	2.91%	0.26%	10%	16%	19%	▲ 3%	18%	Mostly all refinance volume. Spreads increased 5 bps over 1Q
Retail	2.80%	2.76%	-0.04%	-1%	16%	18%	▬ 2%	14%	Spreads decreased by 2 bps due to better credit outlook and firmer rents.
Hospitality	3.20%	3.14%	-0.06%	-2%	16%	22%	▲ 6%	38%	Hospitality pricing decreased 3 bps due to higher performance
Industrial	2.25%	2.19%	-0.06%	-3%	16%	17%	▬ 1%	6%	Spreads increased 4 bps
Multifamily	2.35%	2.18%	-0.17%	-7%	16%	13%	▬ -3%	-20%	Spreads increased 6 bps.
Other	2.50%	2.73%	0.23%	9%	16%	19%	▲ 3%	18%	Self-storage, MH, etc
<b>C&amp;I</b>									
General	2.45%	2.23%	-0.22%	-9%	16%	16%	▬ 0%	0%	Pricing increased 13 bps
Line of Credit	3.00%	2.80%	-0.20%	-7%	16%	12%	▬ -4%	-25%	Pricing remained largely unchanged from last quarter
Municipal	1.80%	1.81%	0.01%	1%	16%	13%	▬ -3%	-19%	Cost of muni deposits is hurting profitability. Pricing increased 3 bps from 1Q
Other	2.45%	1.80%	-0.62%	-25%	16%	13%	▬ -3%	-19%	Skewed towards higher quality and long term project finance
<b>OOCRE</b>									
Industrial	2.20%	2.38%	0.18%	8%	16%	16%	▬ 0%	-3%	Loans to manufacturing and distribution companies increased 6 bps
Office/Retail	2.55%	2.64%	0.09%	4%	16%	17%	▬ 1%	8%	Spreads increased by 6 bps
Medical	2.15%	2.19%	0.04%	2%	16%	14%	▬ -2%	-14%	Spreads increased by 5 bps
Church	2.90%	2.56%	-0.34%	-12%	16%	15%	▬ -1%	-6%	Underpriced given elevated risk. Spreads increased 10 bps.
Other	2.45%	3.06%	0.61%	25%	16%	21%	▲ 5%	33%	Restaurants, child care, etc. Spreads increased 4 bps
<b>Other</b>									
Other	2.45%	2.97%	0.52%	21%	16%	21%	▲ 5%	34%	Mostly ag loans. Spreads decreased 16 bps
Construction	3.25%	3.15%	-0.10%	-3%	16%	5%	▼ -11%	-66%	Elevated risk increased pricing by 8 bps

# ROE Targets ARE Reduced YOY



# Challenges and Opportunities

- **Community bank challenges**
- **COF, Yield, Efficiency Ratio, Inverted Yield Curve**
- **Community bank opportunities**
- **Loan size, loan term, relationship banking, loan hedging**
- **How ARC can help**