



TRENDS IN HOUSING

ULI Spring Meeting 2019

April 18, 2019

Presented by Gadi Kaufmann, CEO

RCLCO
REAL ESTATE ADVISORS

CYCLE RISK

Will 2019 be any different than 2018?

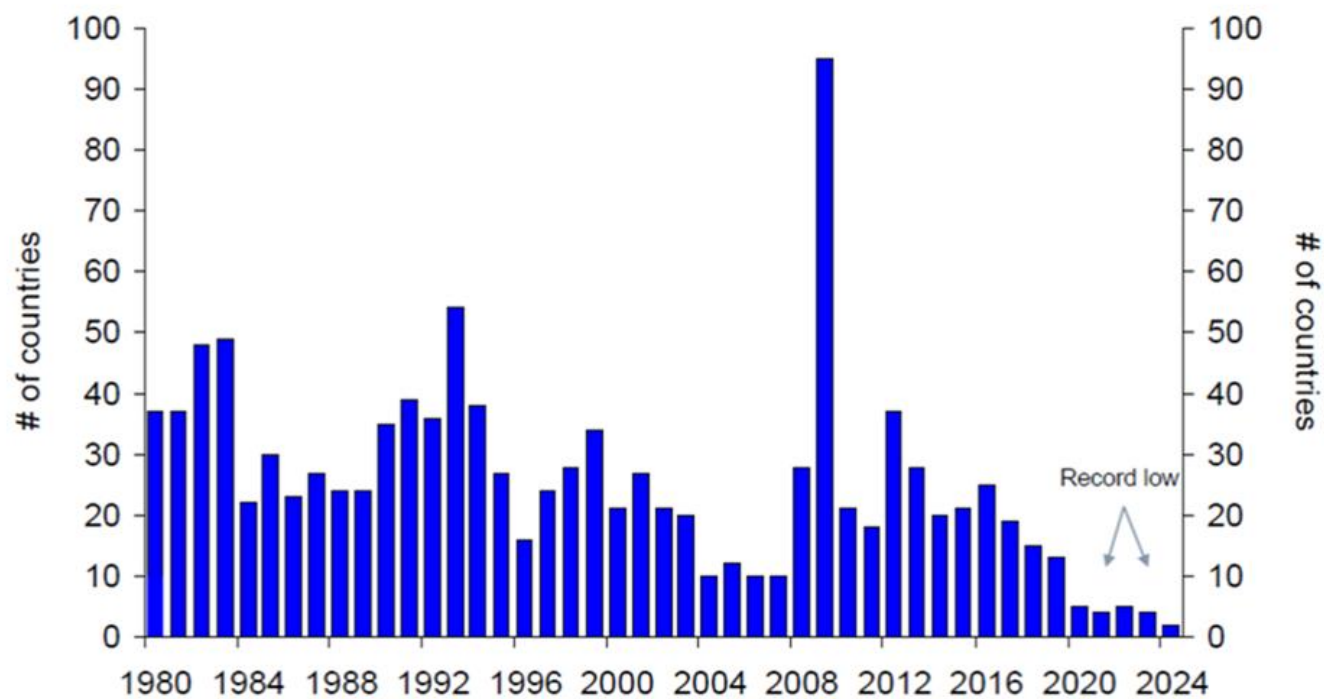


Record-low number of countries in recession given forecasts



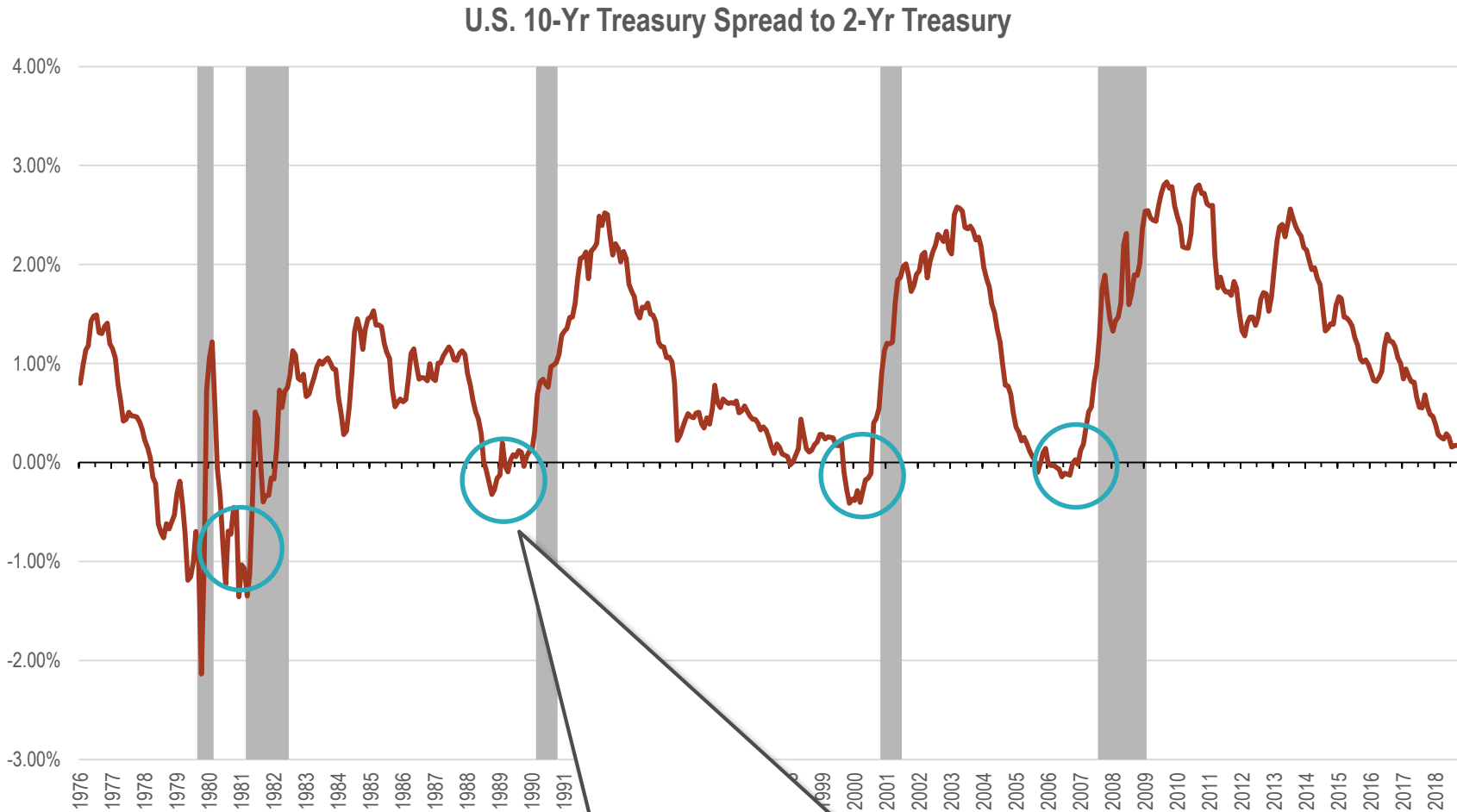
Number of countries in the world in a recession

Number of countries in the world which are in a recession, including IMF forecasts for 2019-2024



Source: IMF WEO April 2019, Haver Analytics, DB Global Research

Leading indicators point towards a near- or medium-term correction



Since the early 1980s, the inversion of the yield curve has preceded a recession by 9-15 months

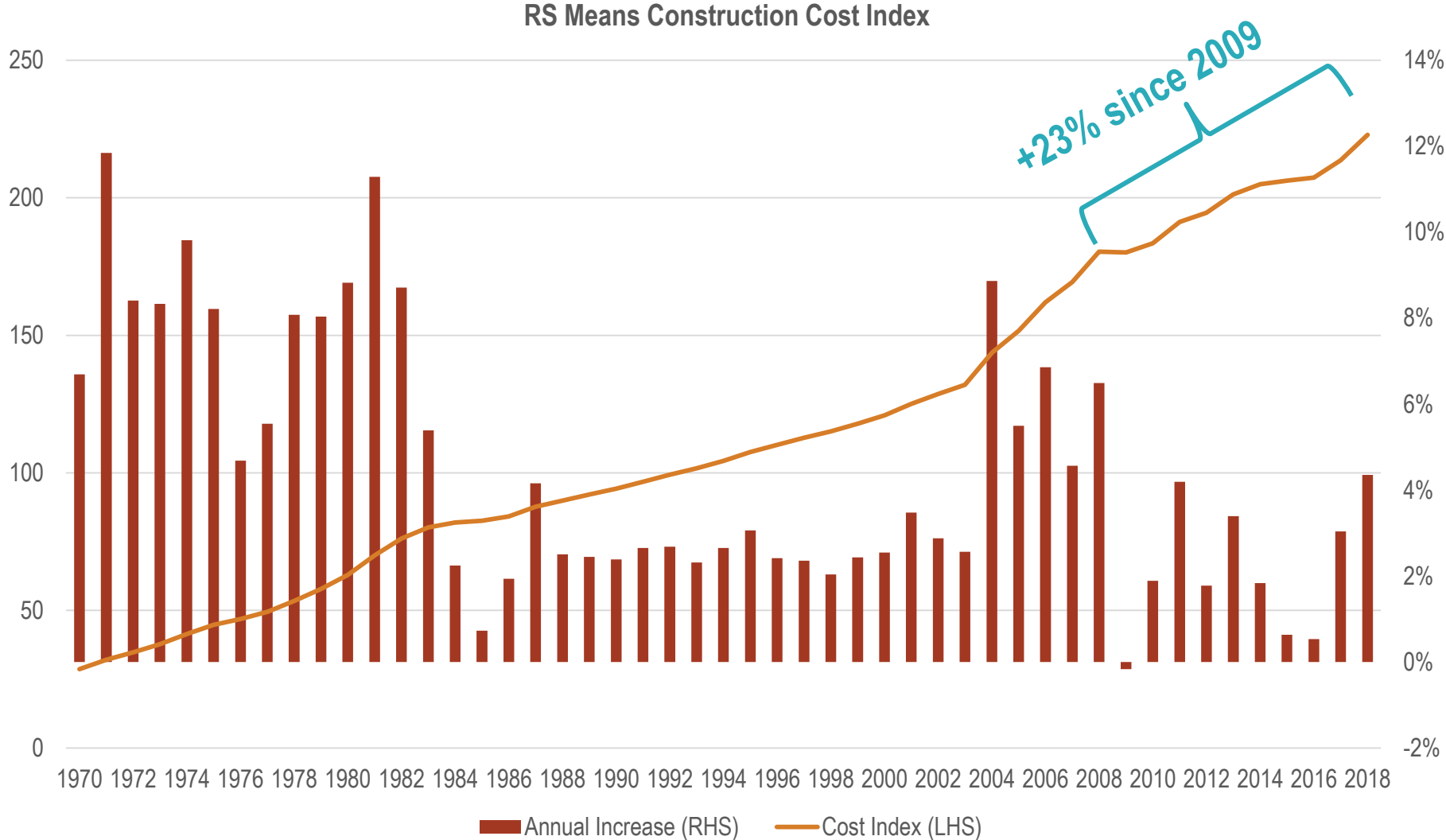
Inverted yield curve is a false alarm

- ▶ No recession for the next three years
- ▶ Growth will slow from 3% in 2018 to 2%
- ▶ Inflation pressures will abate
- ▶ The Fed will stay on hold until the end of 2021
- ▶ Long rates will stay low
- ▶ Bullish for equities
- ▶ Solid corporate fundamentals
- ▶ Credit spreads are expected to widen in 2019H2 for idiosyncratic reasons
- ▶ With US growth slowing and US rates staying low the dollar should depreciate

Torsten Sløk, Ph.D.
Chief Economist
Managing Director
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CONSTRUCTION COSTS

Rising labor costs are driving a rapid increase in construction costs, especially in the largest metro areas



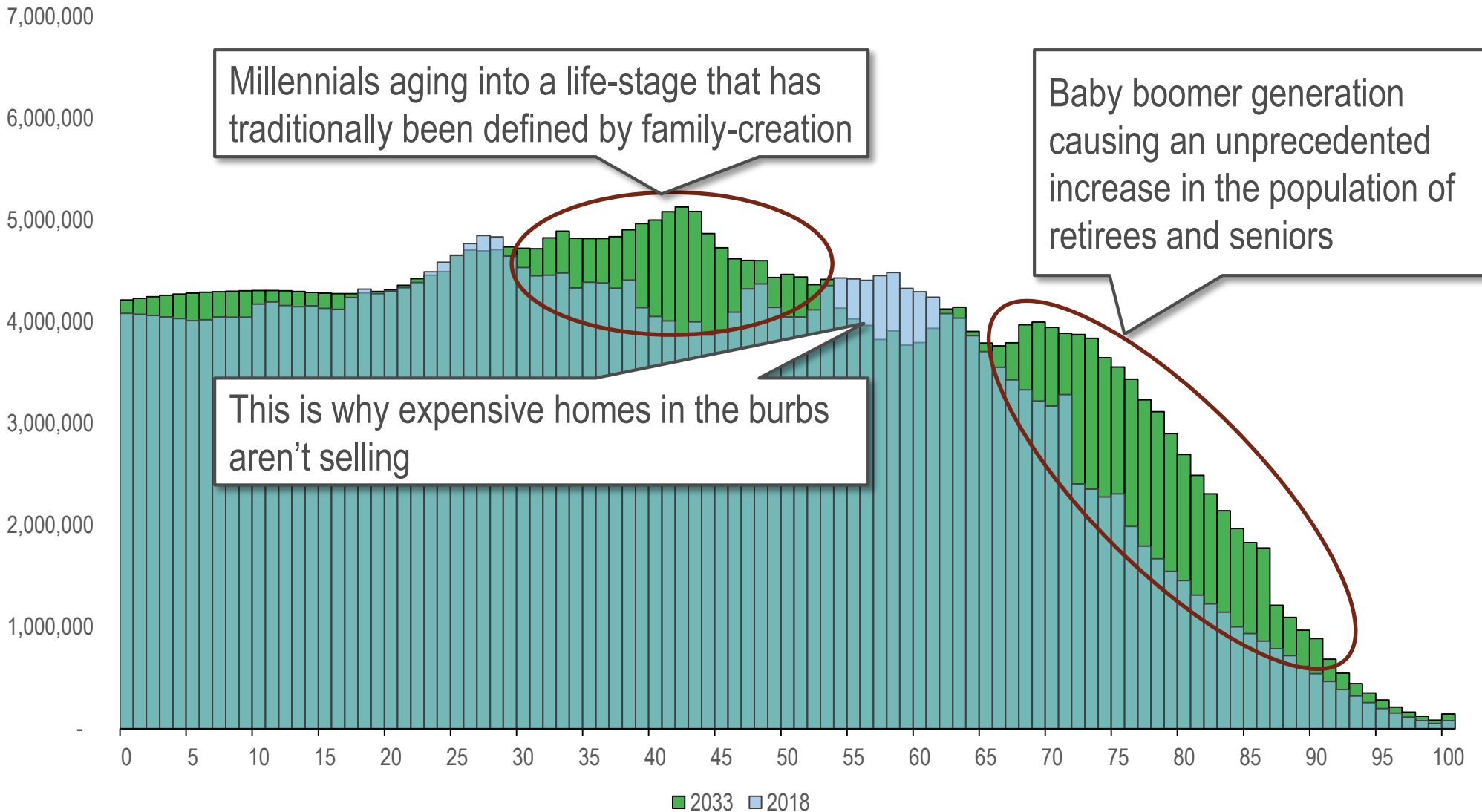
CYCLE RISK

Will 2019 be any different than 2018?



Two big demographic trends: boomers and millennials

U.S. Population by Age, 2018 & 2033

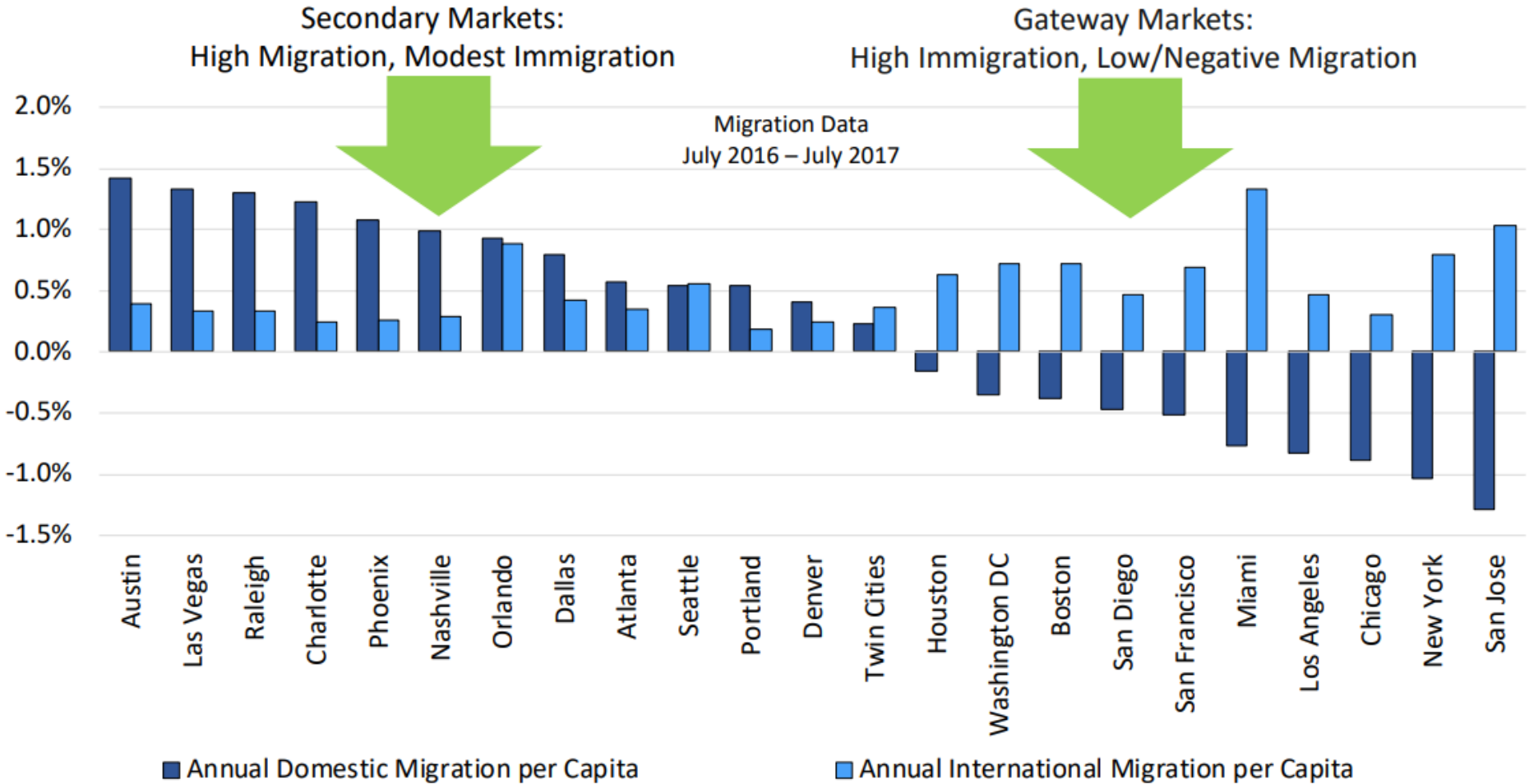


Millennials aging into a life-stage that has traditionally been defined by family-creation

Baby boomer generation causing an unprecedented increase in the population of retirees and seniors

This is why expensive homes in the burbs aren't selling

U.S. growth primarily driven by immigration; domestic migration is leaving high-cost gateway markets

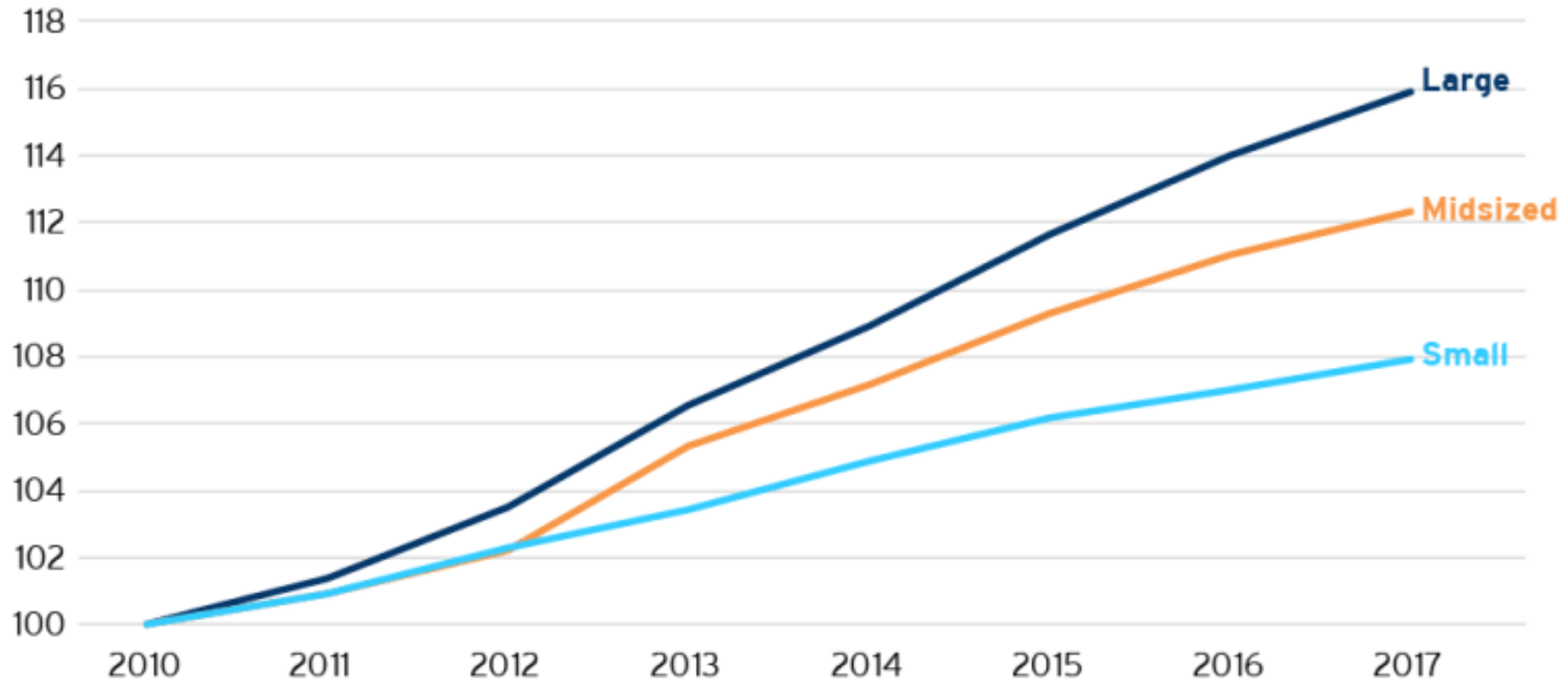


Source: U.S. Census Bureau (BOC); Yardi® Matrix



Large metros capture an increasing share of job and wealth growth

Indexed employment by metro size, 2010-17 (2010 = 100)



Source: Brookings Analysis of EMSI data

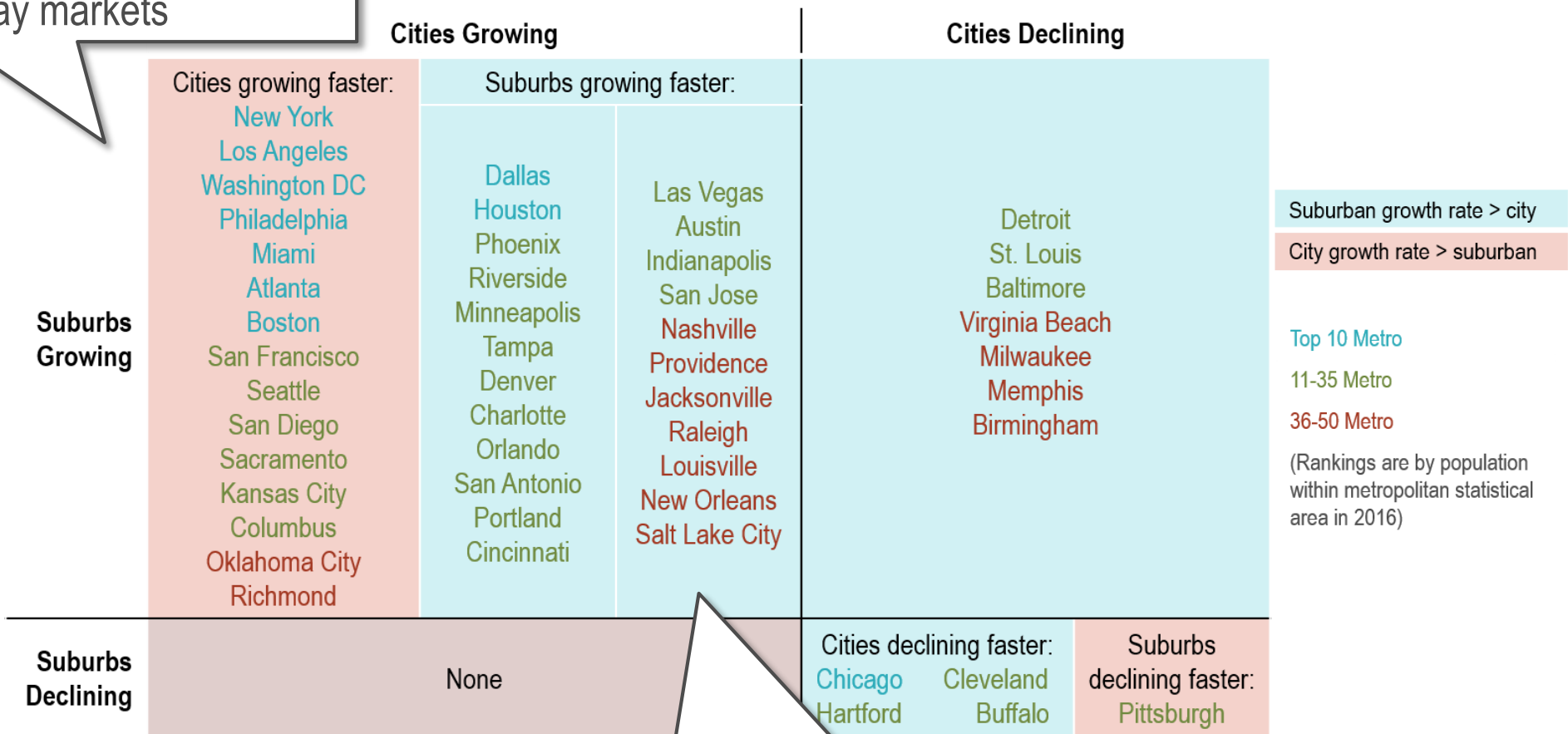
B | Metropolitan Policy Program
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Post-recession trend is a continuation of a decades long pattern of job growth concentrating in gateway markets and other large metros

In recent years, most major metro areas are experiencing faster growth in their suburbs, especially in secondary markets

Relative Urban and Suburban Growth Rates in the Largest 50 Metropolitan Areas, 2015 - 2017

Urban growth strongest in gateway markets



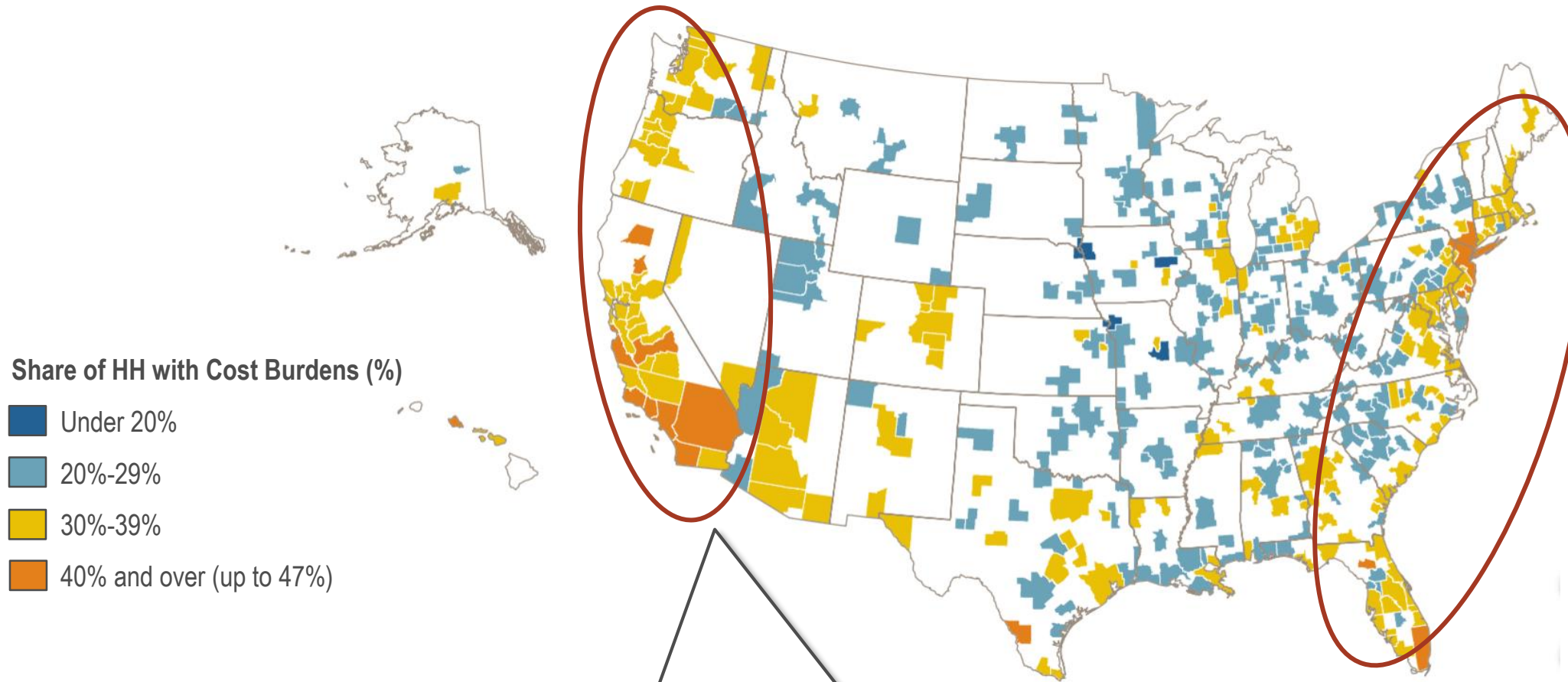
Suburban growth rate > city
City growth rate > suburban

Top 10 Metro
11-35 Metro
36-50 Metro
(Rankings are by population within metropolitan statistical area in 2016)

Most growing metros are experiencing faster suburban growth than urban growth

Rust belt metros declining

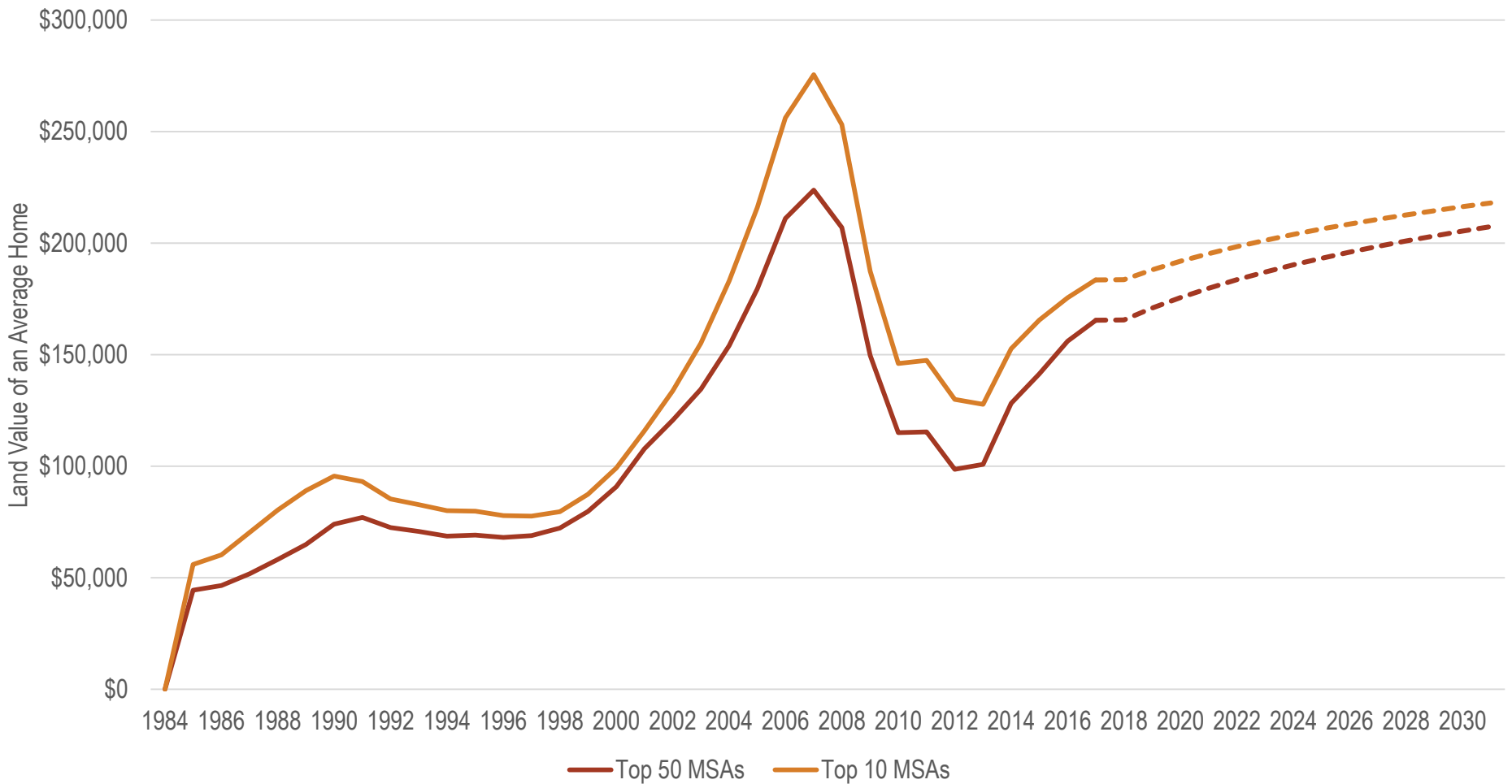
One-third of metro households are cost burdened as housing costs outpace income growth



Coastal areas have the most extreme cost burdens and face increasing regulatory pressure to improve affordability

Land values steadily increasing since financial crisis, land prices in gateway markets especially high

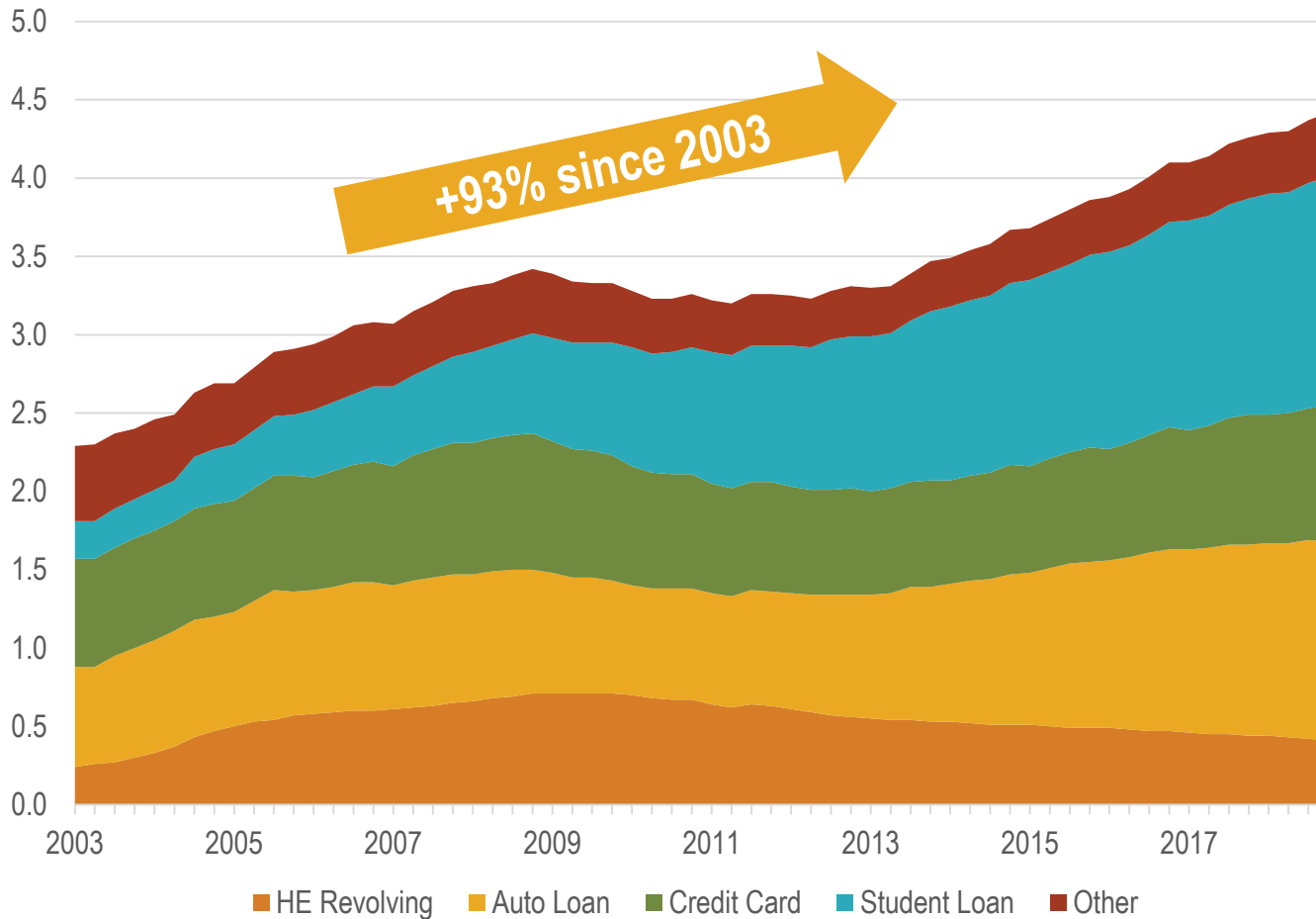
Average Land Values of Top 50 and Top 10 Largest MSAs by Population, 2000 – 2030



Land Value calculated as Home Value less Structure Costs (of construction and materials), the latter being stickier than home prices.

Growing levels of indebtedness may constrain ability to buy

U.S. Non-Mortgage Household Debt (in trillions), 2003-2018



Total **student loan debt** outstanding has grown by 6X in the past 15 years

INNOVATIONS

The sector continues to innovate with new product and approaches to meeting customer demand

Annadel Apartments – Kattera



Avilla Homes – NexMetro Communities

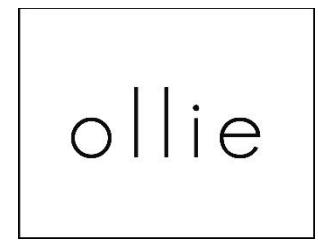


Institutionalized Single-family Rental

Co-living



invitationhomes



Takeaways

1. Outlook: no recession, low interest rates, slow growth, little inflation for 2019 (+?)
2. Demographic tailwinds (renters, stages/ages, im/migration, seniors)
3. Still about the “smile” states
4. Too much high end?
5. Affordability constraint
 - » Down payment and mortgage qualification
 - » Rising construction costs and land values
 - » Gentrification is primary source of affordable housing in established metros
6. Location: suburbs in growth metros, jobs, affordability & taxes
 - » Winners – New Economy (STEM, Med-Ed) and affordable diversified metros in CA, SE, SW (watch Oklahoma), Mountain Region (ID, UT, CO, NV & AZ)
 - » Losers – Inland industrial and high cost large cities (Mid-Atlantic and NE, Midwest, West)
7. Innovations to keep up with:
 - » Tech Revolution: PropTech, predictive analytics, 5G, robotics
 - » Construction techniques (faster, better, cheaper)
 - » Innovative affordable housing solutions (density, size, construction technique)
 - » SFR is here to stay (10%-20% of MPC, or more)
 - » Vertical integration (developer/builder/operator, customer for life model)

2019 Playbook – Top 10 List

1. Watch the balance sheet
2. Chase efficiency
3. Figure out how to deliver lower priced product
4. Renters matter (over 20% of the market)
5. Invest in technology (lead or follow, but don't fall behind)
6. Invest in talent
7. Invest in your customers
8. Invest in innovation
9. Learn to integrate
10. Segmentation has a whole new meaning



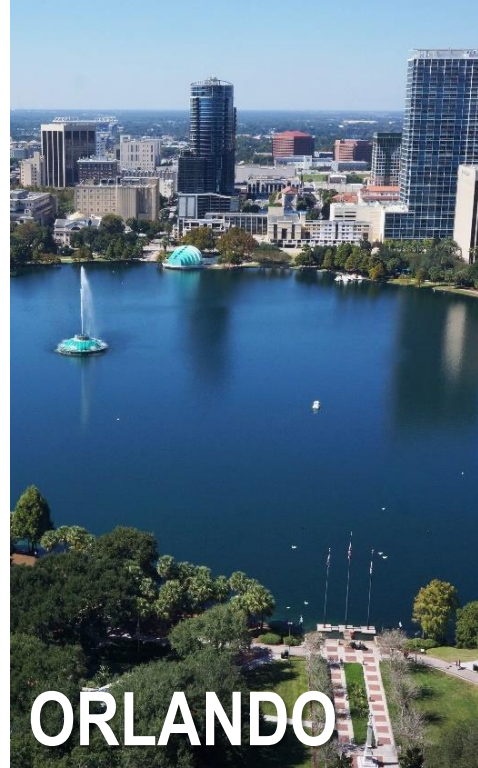
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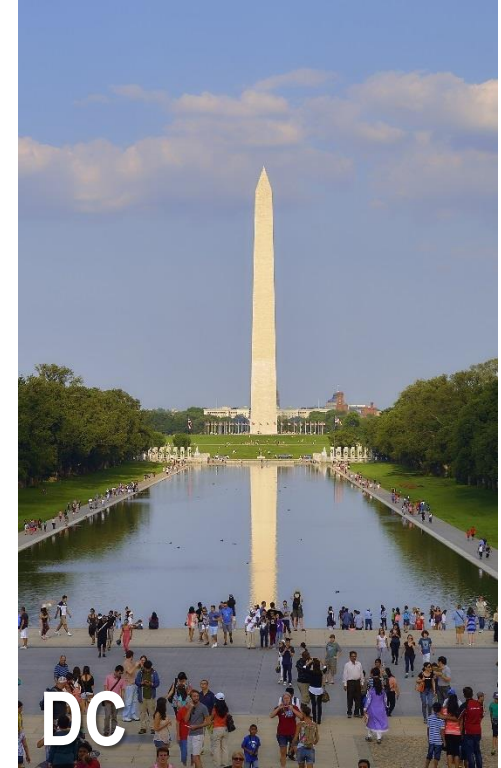
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