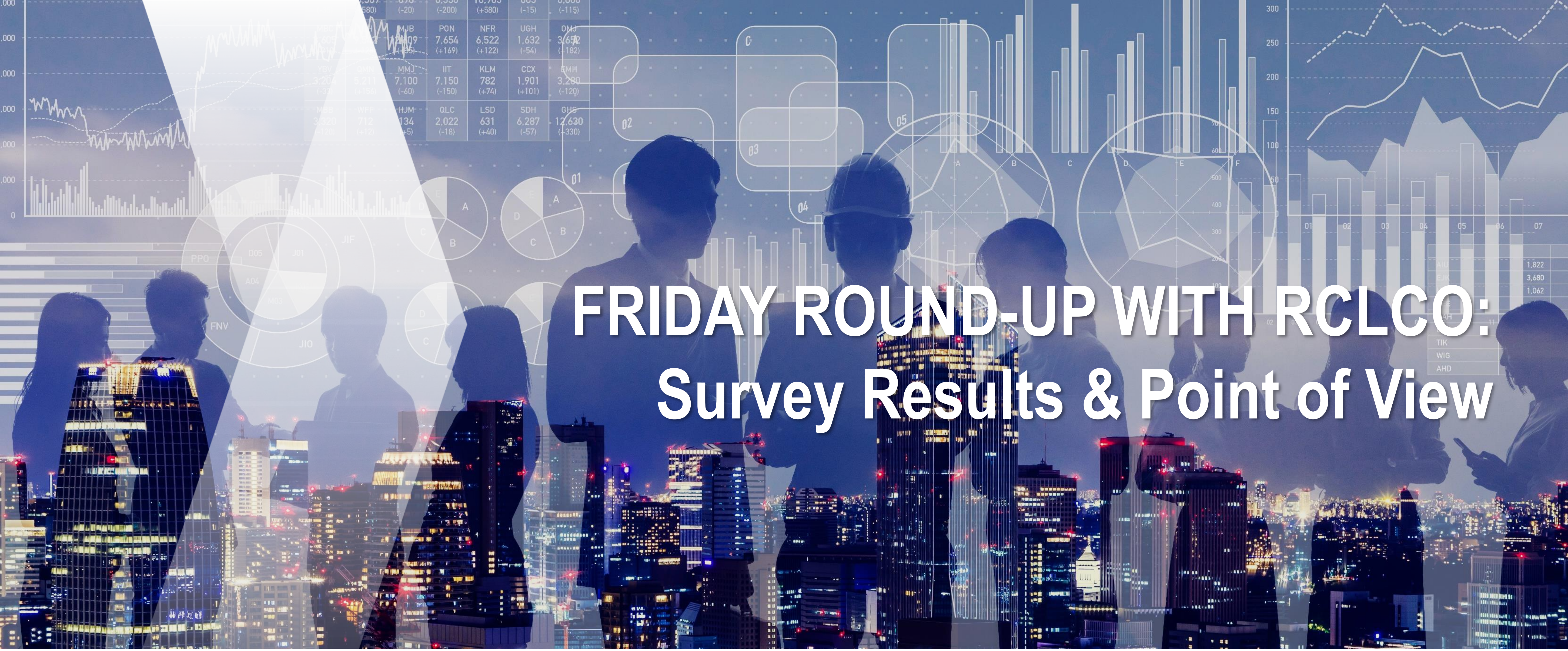

FRIDAY ROUND-UP WITH RCLCO: Survey Results & Point of View

April 17th, 2020

Charles A. Hewlett, Managing Director

Gregg Logan, Managing Director

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TODAY'S PANELISTS

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AGENDA OUTLINE

- ► The Week's Headlines
- ► RCLCO COVID-19 Sentiment Survey
- ► For-Sale Housing & Master-Planned Communities Outlook
- ► RCLCO Base Case POV
- ► Q&A

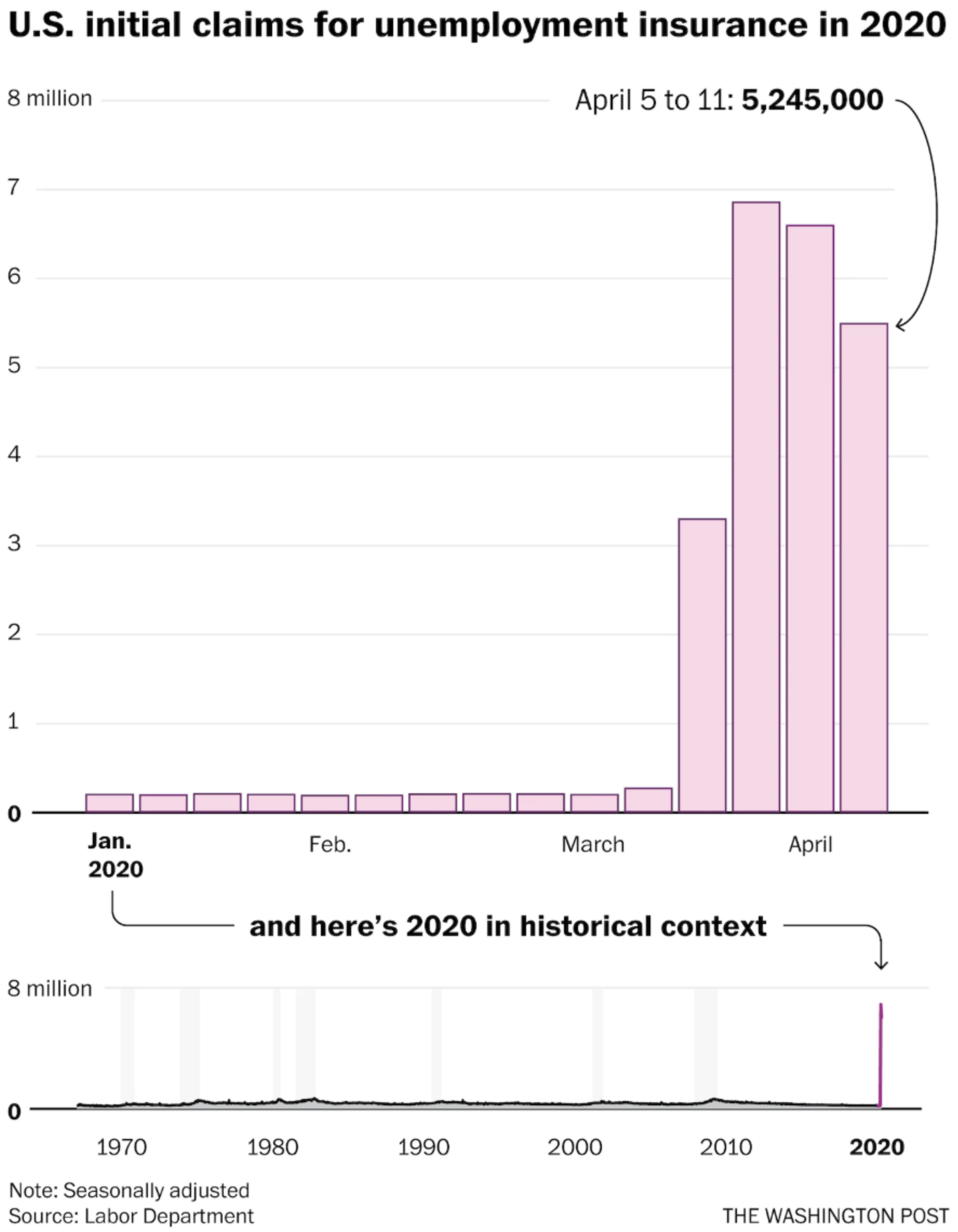
Source: RCLCO

THIS WEEK'S HEADLINES

COVID-19 & UNEMPLOYMENT

Update: April 16, 2020

- An additional **5.2 million** Americans applied for unemployment benefits the week April 5-11
- More than **22 million** have files in the 4 weeks since a national emergency was declared
- The implied unemployment rate is **over 20%** - more than double the peak in the last recession of 10%
- Number may still be **understated**, as only 19 states are accepting applications from gig workers
- These job losses wipes out nearly all of the jobs gained from February 2010 to February 2020



Source: RCLCO

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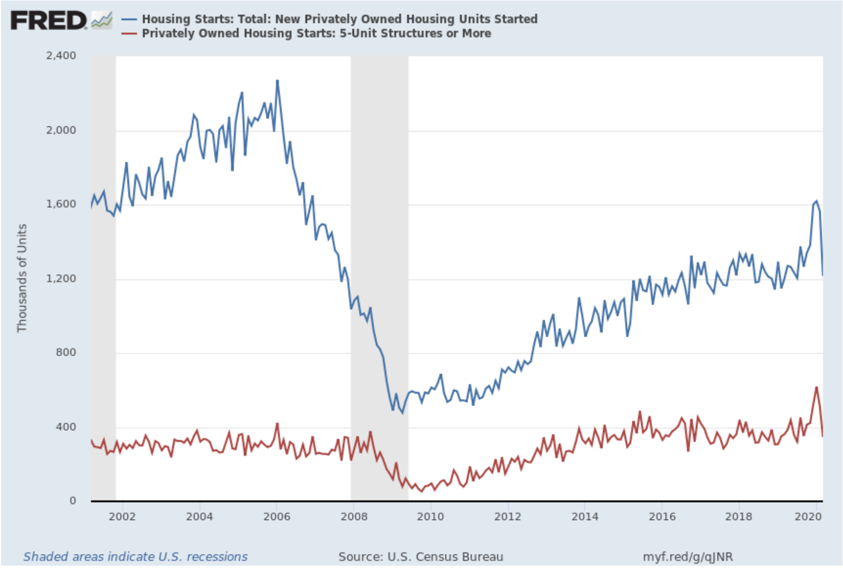
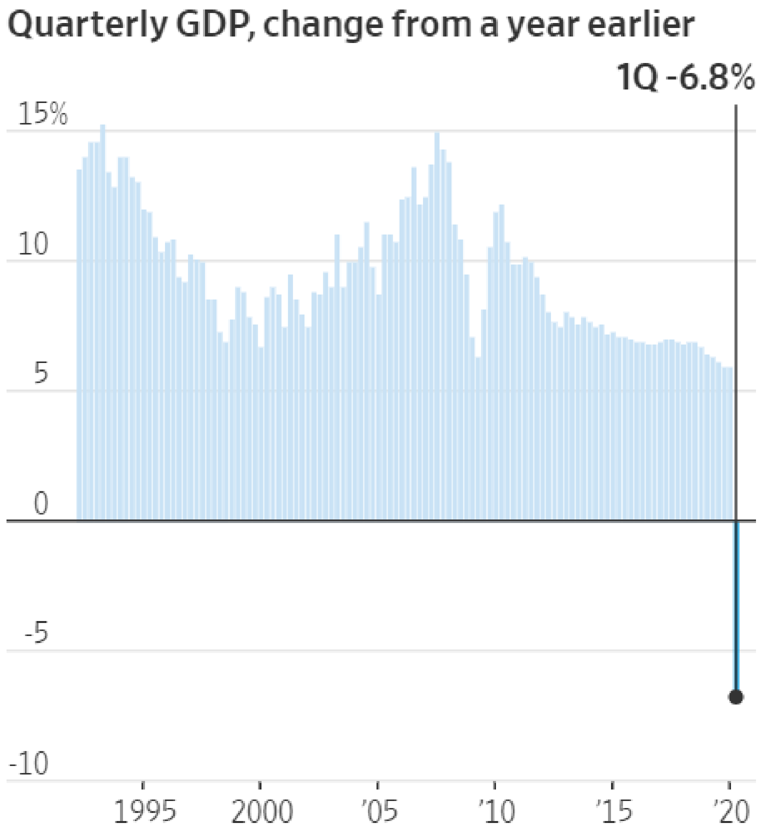
COVID-19 & THIS WEEK'S HEADLINES

Update: April 17, 2020

- March 2020 housing starts down **-22%** vs February 2020; but +1.4% vs. March 2019
  - Single-family **-17.5%** (MoM) & multifamily **-32%** (MoM)
- NAHB Home Market Index (HMI) historic plunge **-42** points to 30 in April
- Best Buy to furlough **51,000** hourly workers
- Funding exhausted for $350 Billion small-business Paycheck Protection Program (PPP)
- China recorded first GDP contraction (Q1 **-6.8%)** since it began reporting in 1992
  - The fall was even steeper compared with the previous quarter (-9.8% QoQ)





Source: RCLCO

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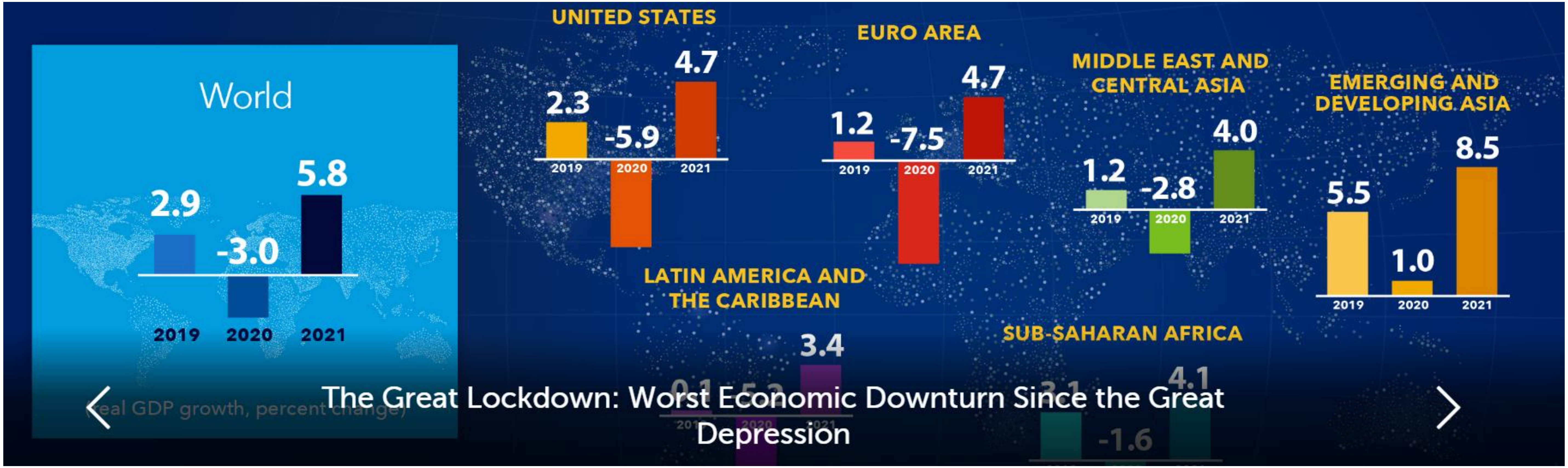
COVID-19 & THE GREAT LOCKDOWN

Updated: April 14, 2020, IMF

- **Worst economic downturn since the Great Depression**



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https://blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/

COVID-19 & GDP FORECASTS

Update: April 17, 2020

DATE	SOURCE	2020 U.S. GDP ANNUAL YOY % CHANGE	2021 U.S. GDP ANNUAL YOY % CHANGE
April 14, 2020	International Monetary Fund (IMF)	-5.9%	+4.7%
April 14, 2020	Capital Economics	-5.0%	+6.5%
April 14, 2020	Bank of America	-6.0%	+6.0%
April 9, 2020	The Conference Board (TCB)	-6.5%	n/a
April 7, 2020	Kiplinger	-4.0%	n/a
April 2, 2020	KPMG	-5.2%	+3.0%
March 27, 2020	Moody's Analytics	-2.2%	n/a
March 26, 2020	JPMorgan Chase	-5.8%	n/a

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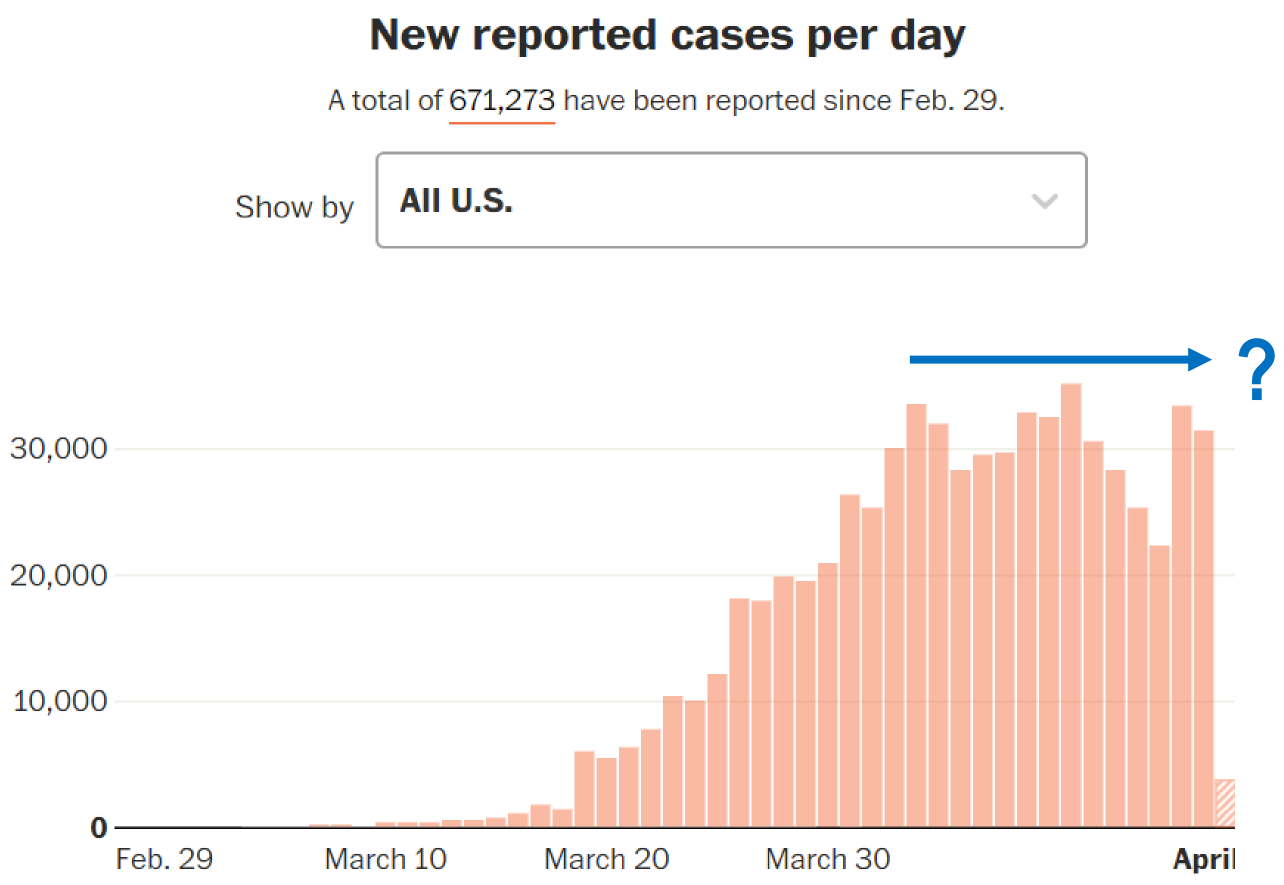
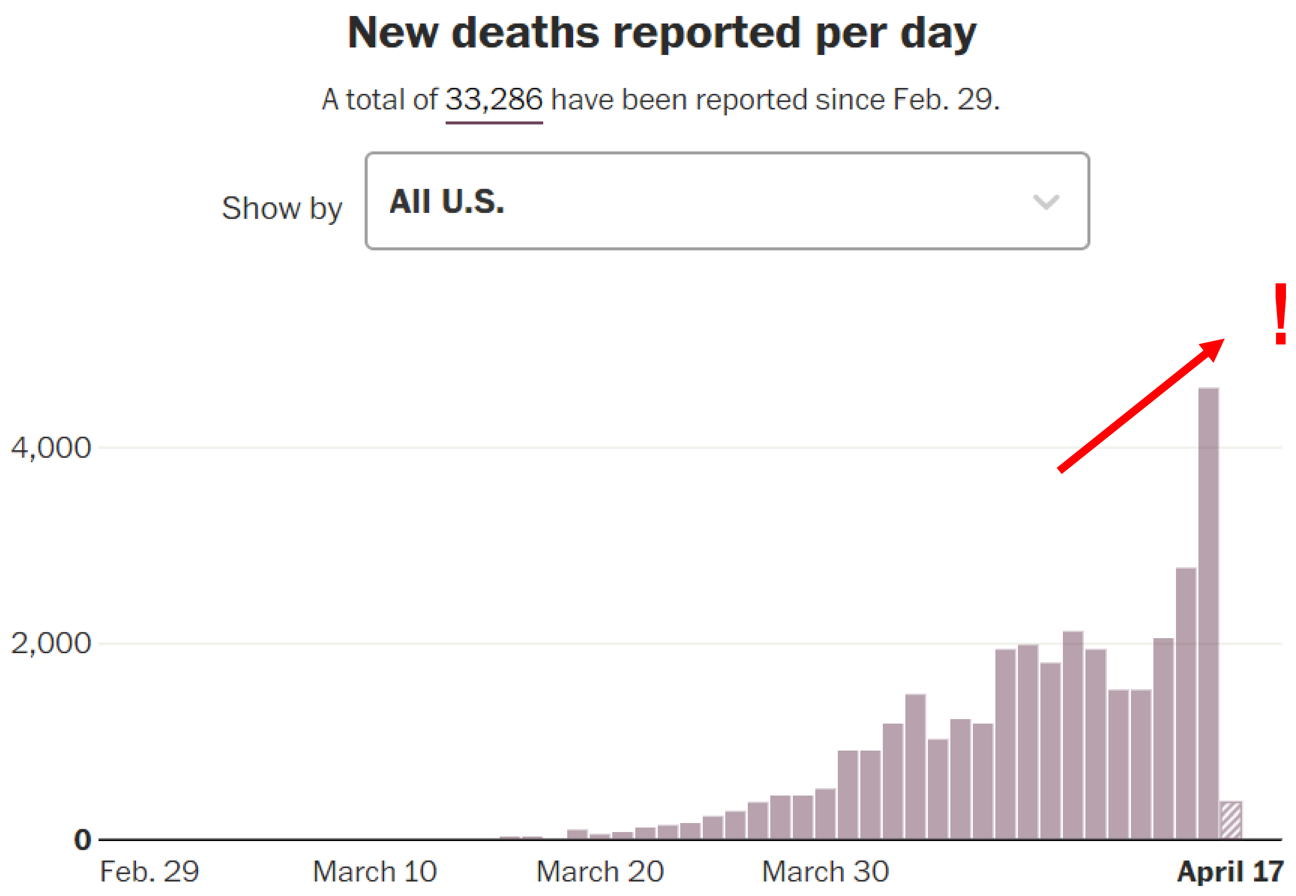
Source: RCLCO

COVID-19 & THE CURVE

Update: April 17, 2020





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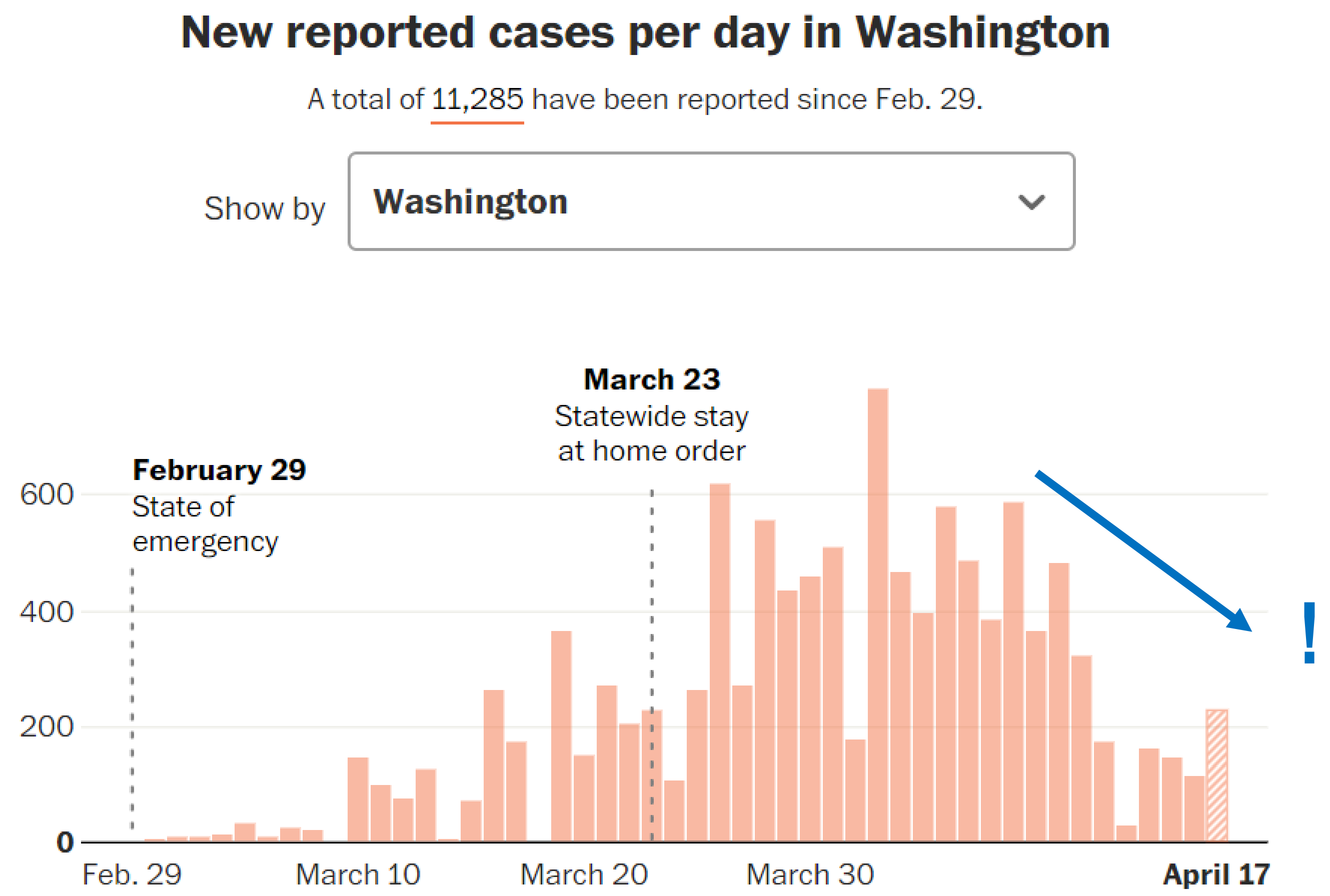
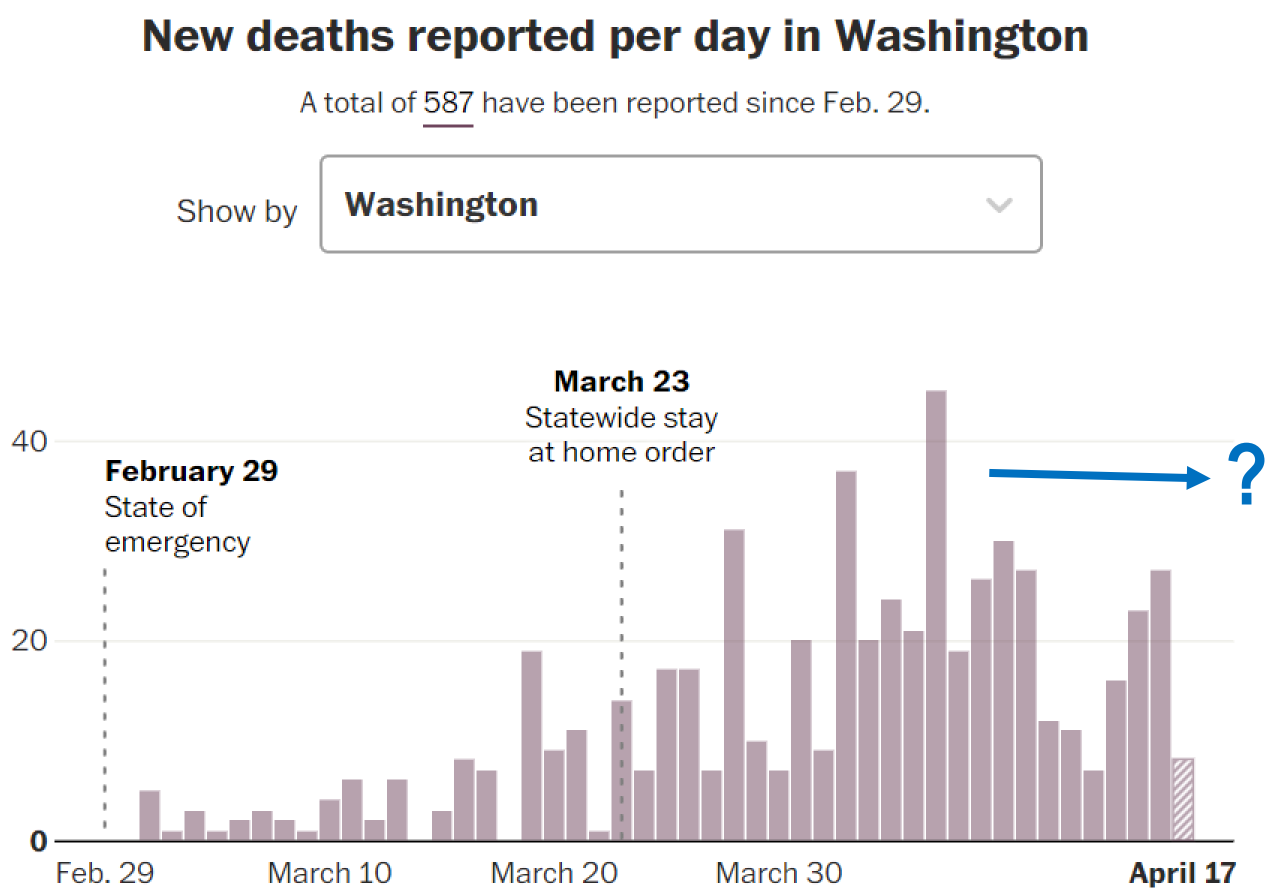
https://www.washingtonpost.com/graphics/2020/national/coronavirus-us-cases-deaths/?itid=hp_rhp-banner-low_web-gfx-death-tracker%3Ahomepage%2Fstory-ans

COVID-19 & THE CURVE

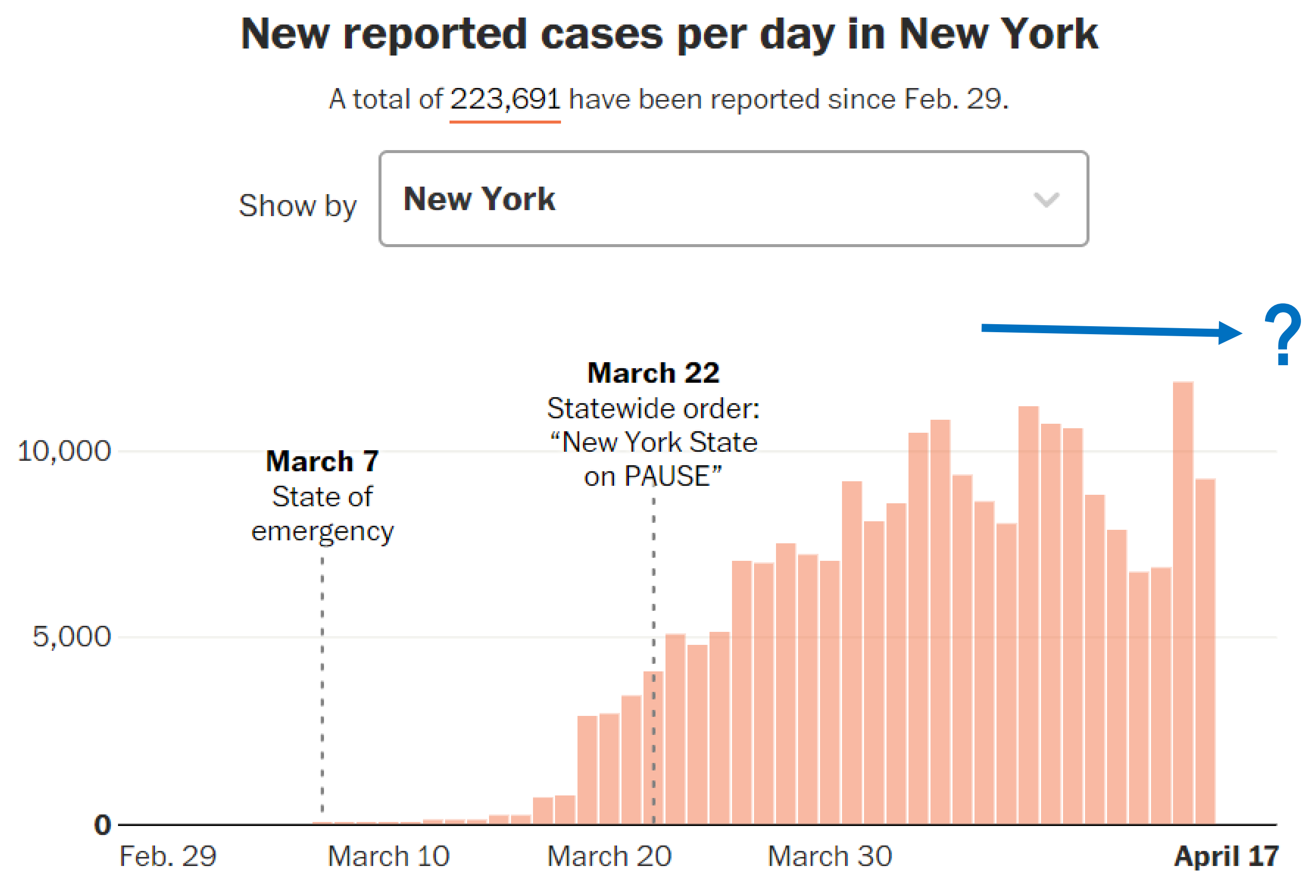
Update: April 17, 2020

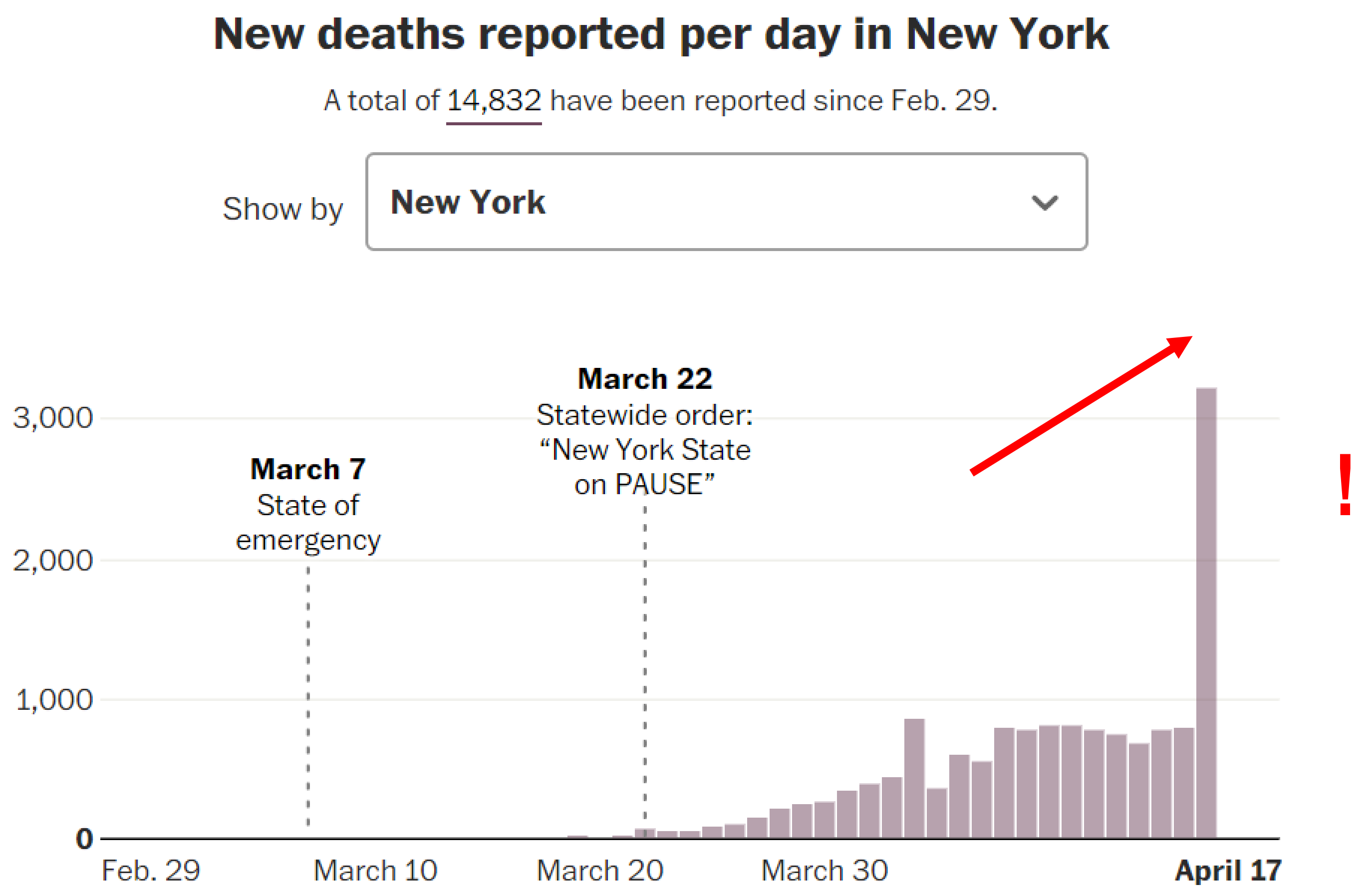




COVID-19 & THE CURVE

Update: April 17, 2020





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https://www.washingtonpost.com/graphics/2020/national/coronavirus-us-cases-deaths/?itid=hp_rhp-banner-low_web-gfx-death-tracker%3Ahomepage%2Fstory-ans

RCLCO COVID-19 SENTIMENT SURVEY RESULTS

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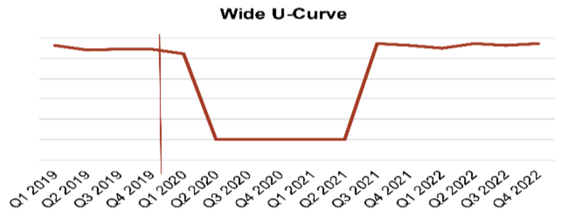
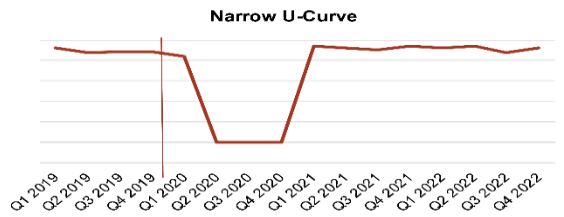
MOST LIKELY RECOVERY SCENARIOS

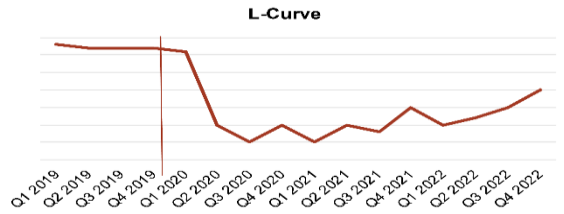
1. There is little doubt that we are now in, or soon heading for, a recession in the U.S. Question is, which of the following scenarios do you believe is most likely for a recovery scenario, including:



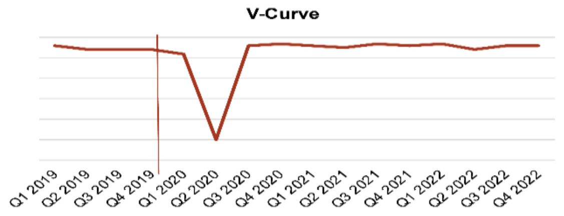
Wide U-Curve: managed control of new COVID-19 cases helping to flatten the curve, but stretching the economic impact across the balance of 2020



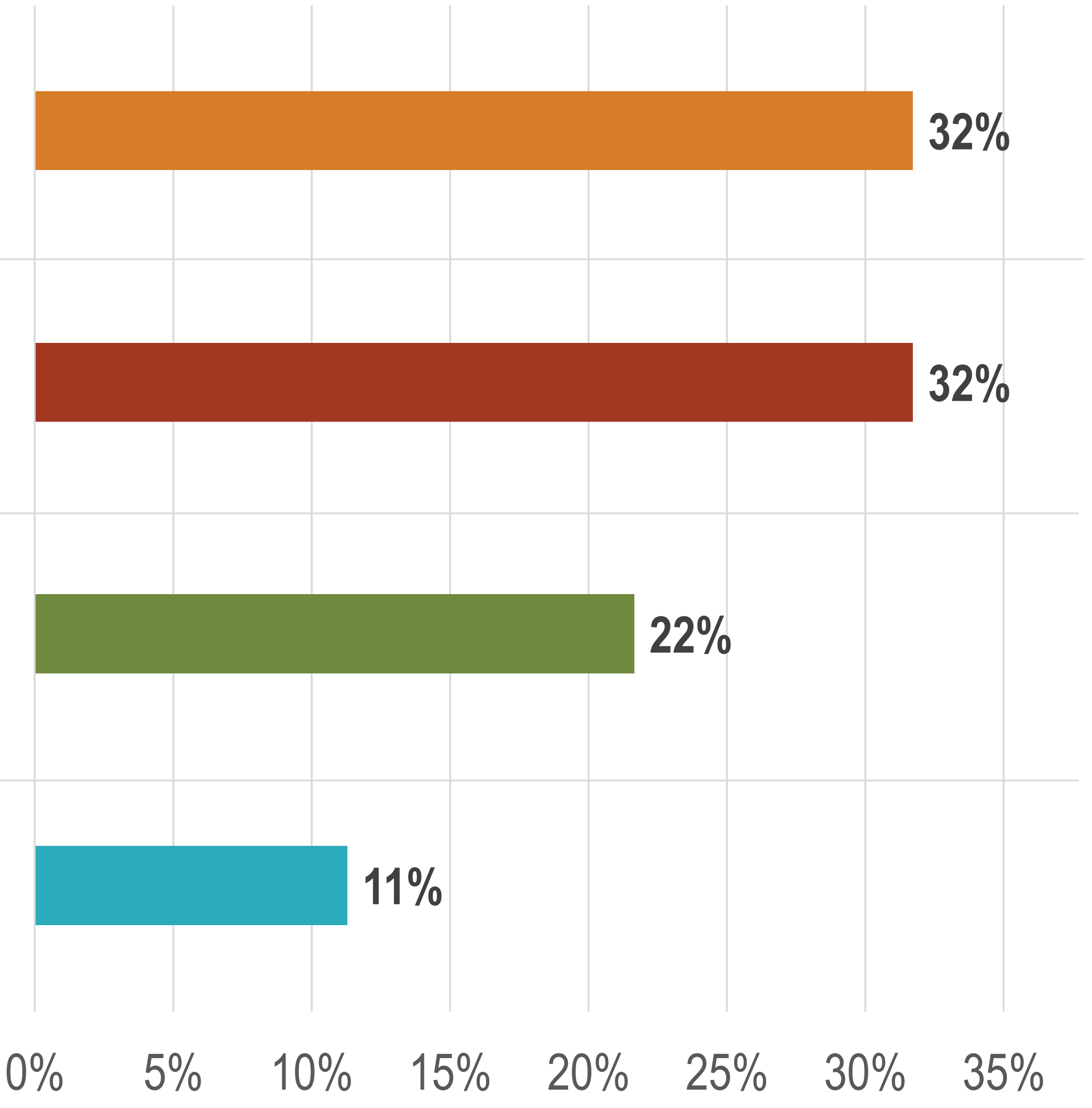
Narrow U-Curve: peak new COVID-19 cases in the U.S. higher and delayed until May



L-Curve: the country continues to deal with new COVID-19, or sees a resurgence in the fall that requires additional rounds of social distancing throughout 2020 and into 2021



V-Curve: relatively quick recovery with peak new COVID-19 cases in the U.S. in mid-April



Source: RCLCO COVID-19 Sentiment Survey

IMPACT ON DIFFERENT REAL ESTATE SECTORS

2. What impact will the scenario you have selected have on various real estate segments, including:

	Dramatic (>20%)	Severe (10%-20%)	Moderate (5%-9%)	Minimal (<5%)	No Impact
Hospitality	59%	28%	8%	2%	1%
Retail - Regional Mall	50%	37%	5%	2%	1%
Resort Residential	41%	36%	13%	2%	1%
Retail - Big Box/Power Center	31%	37%	20%	6%	1%
Retail - Lifestyle	28%	44%	21%	3%	1%
Senior Housing	16%	31%	25%	18%	4%
Office	14%	41%	33%	5%	2%
Student Housing	13%	30%	30%	14%	5%
Retail - Convenience/Necessity	8%	17%	34%	27%	11%
For-Sale Residential	6%	24%	47%	19%	2%
Rental Apartments	3%	26%	42%	25%	2%
Healthcare/Medical Office	1%	9%	25%	38%	21%
Industrial	0%	5%	26%	42%	19%

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Source: RCLCO COVID-19 Sentiment Survey

ANTICIPATED ABILITY TO OBTAIN CAPITAL

3. What impact do you believe the scenario you have selected above will have on your ability to secure capital for your real estate activities, including:

	Abundant Availability	Sufficient Availability	Limited Availability	No Availability	Don't Know/No Opinion
Continued funding of projects under construction:	11%	65%	17%	1%	6%
Securing equity for refinancing/recapitalization of stabilized income producing real estate assets:	10%	48%	32%	2%	9%
Securing debt for refinancing/recapitalization of stabilized income producing real estate assets:	10%	49%	33%	1%	7%
Securing equity for planned new developments:	4%	26%	57%	5%	7%
Securing construction debt for planned new developments:	2%	27%	59%	5%	7%

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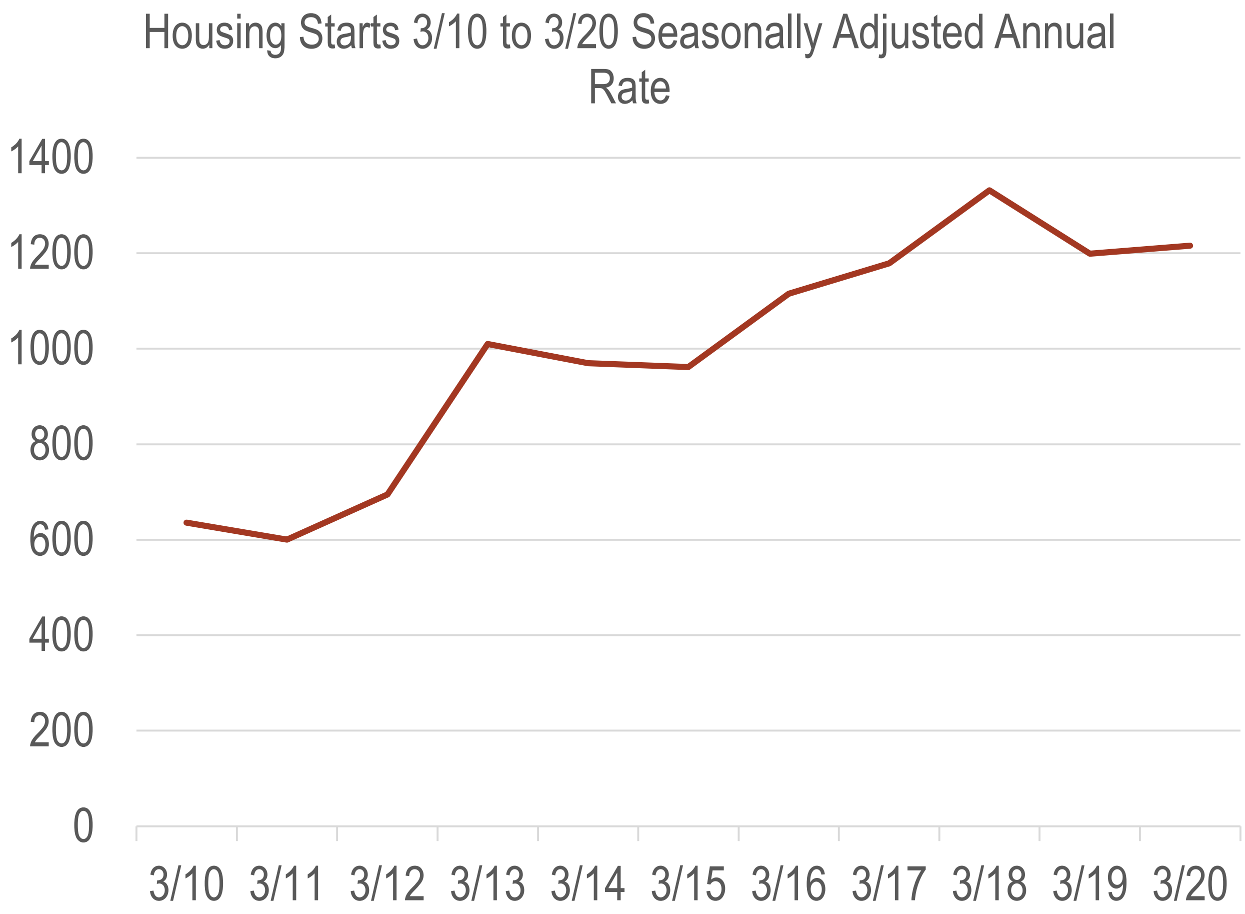
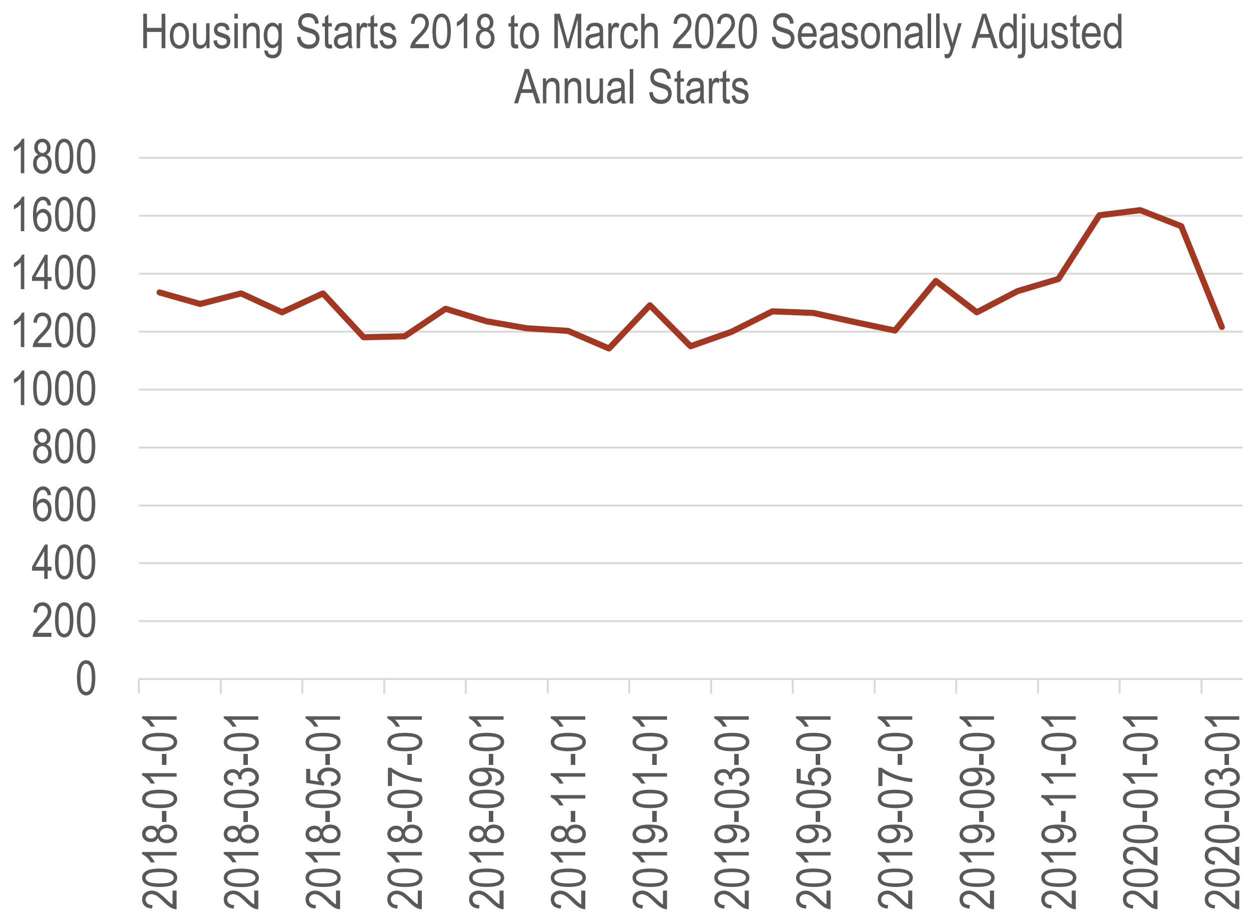
FOR-SALE HOUSING & MASTER-PLANNED COMMUNITIES OUTLOOK

MARCH HOUSING STARTS TRENDING DOWN (FRED)





March housing units authorized by building permit -6.8% from February (but above March 2019)
Seasonally adjusted annual rate of 1,353,000

FRED ECONOMIC DATA | ST. LOUIS FED ECONOMIC RESEARCH FEDERAL RESERVE BANK OF ST. LOUIS

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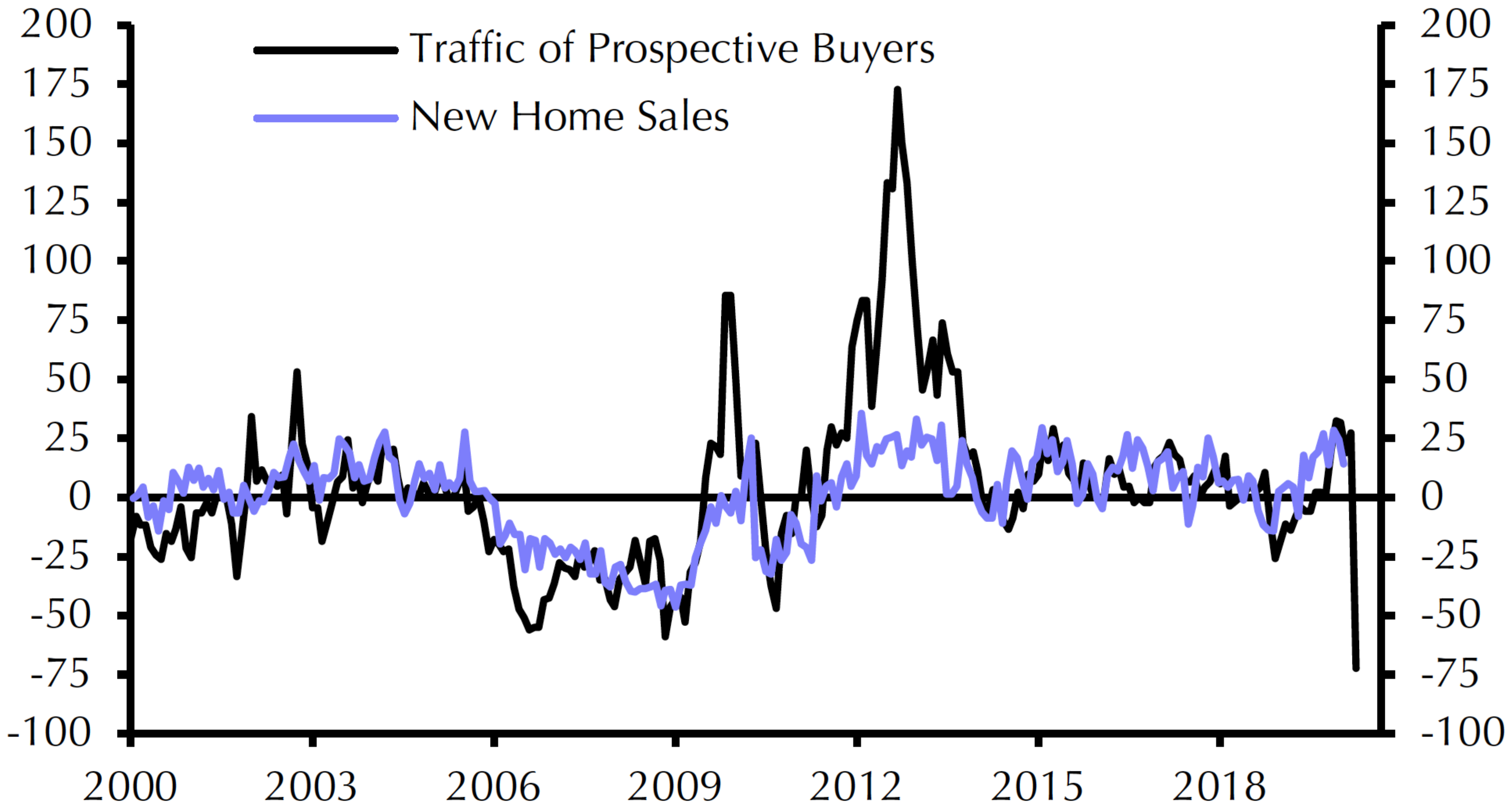
STEEP DECLINE IN PROSPECTIVE BUYERS (NAHB)



Sources: Census Bureau, NAHB

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REAL ESTATE PRICES

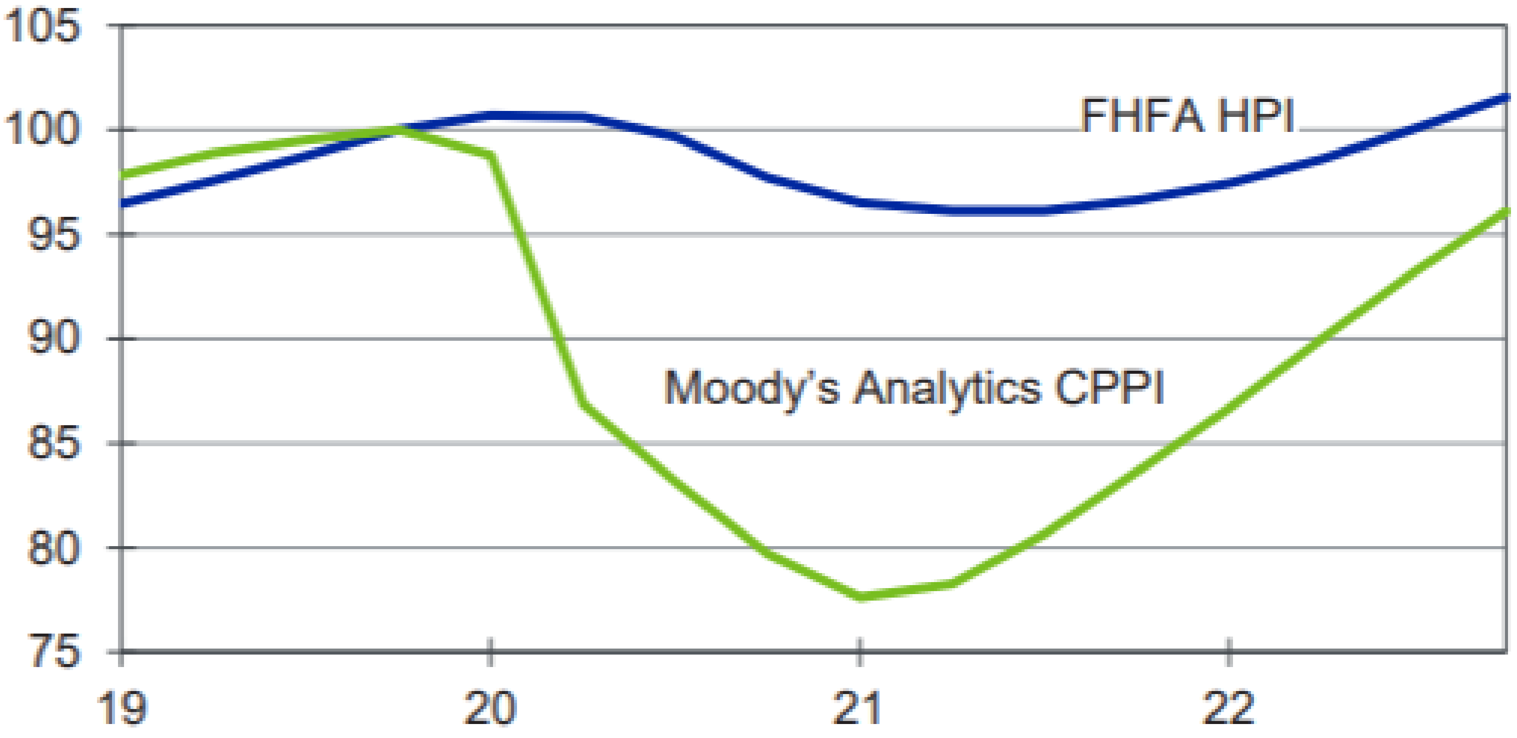
Update: April 2020, Moody's Analytics, Federal Housing Finance Agency

- **Home Prices – relatively stable**
  - House prices will come under pressure; expect some price declines later this year and early next, when home sales resume
  - But house price index declines will be in the low single digits nationwide
  - Continued record low mortgage rates should buoy housing demand once we are allowed out of our homes

- **CRE – darker story**
  - CRE prices are expected to decline by double digits over the next few years

Chart 6: Real Estate Prices Will Slump

2019Q4=100, Apr preliminary baseline



Sources: FHFA, Moody's Analytics

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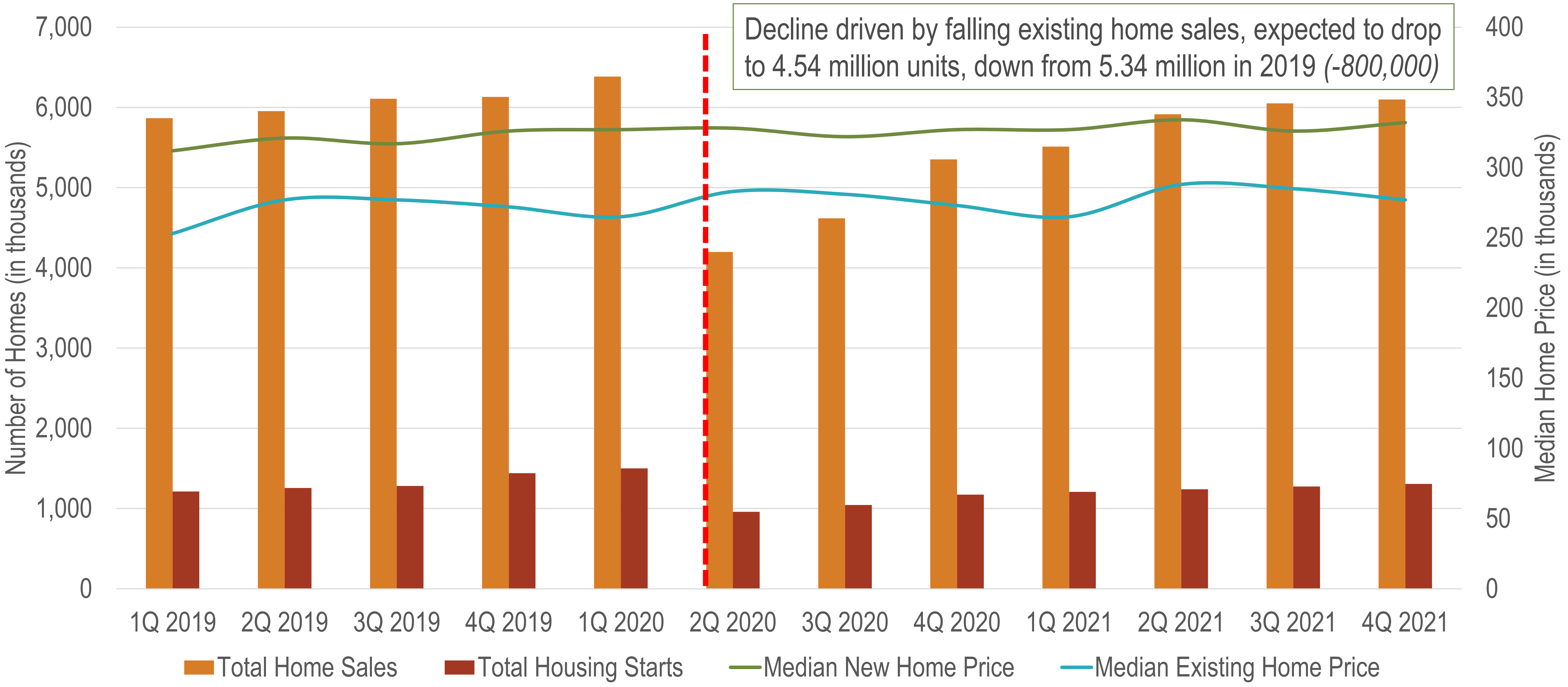
https://www.economy.com/economicview/analysis/

FANNIE MAE – HOME SALES DECLINE 15%



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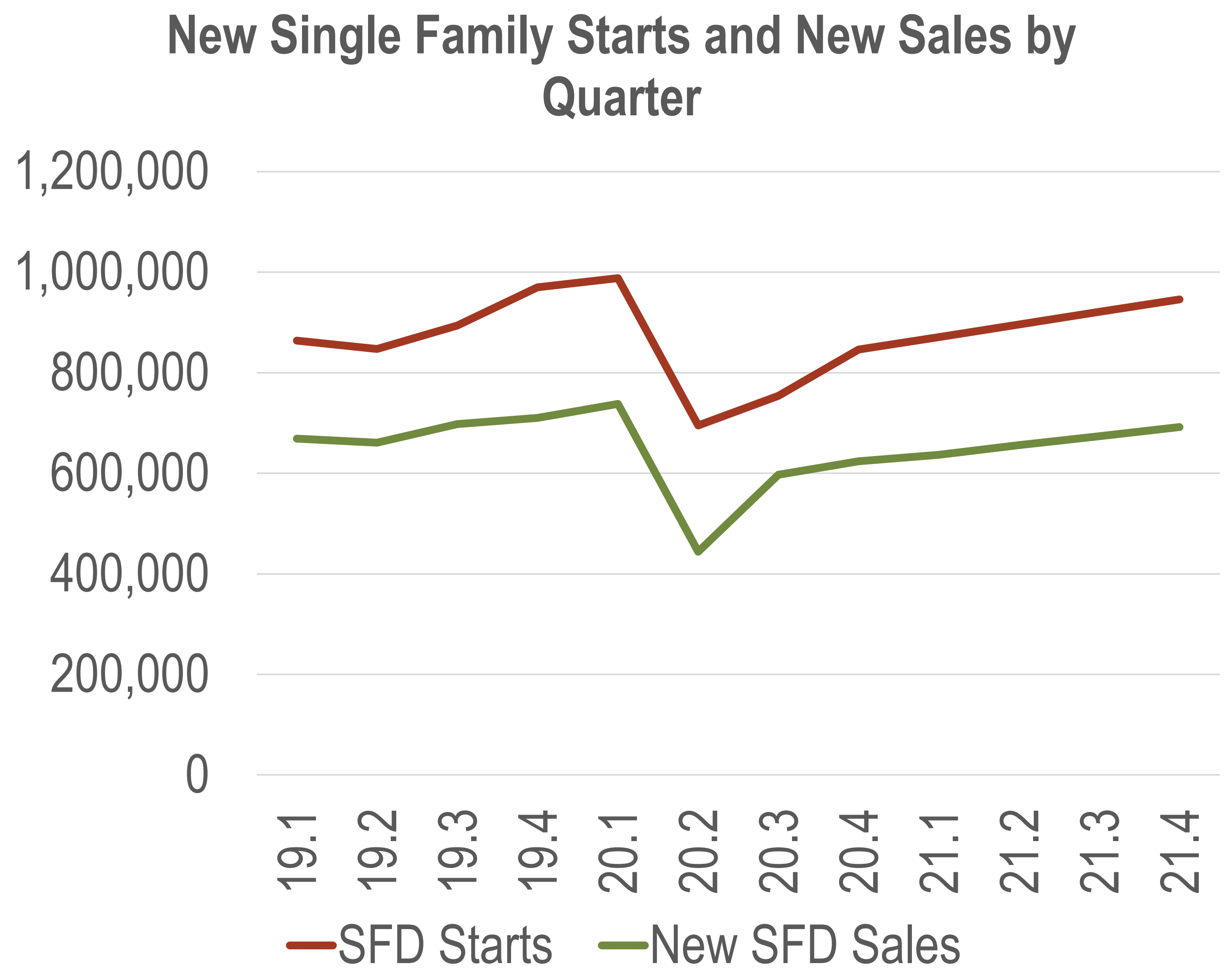
Source: Fannie Mae

FANNIE MAE MARKET PROJECTIONS

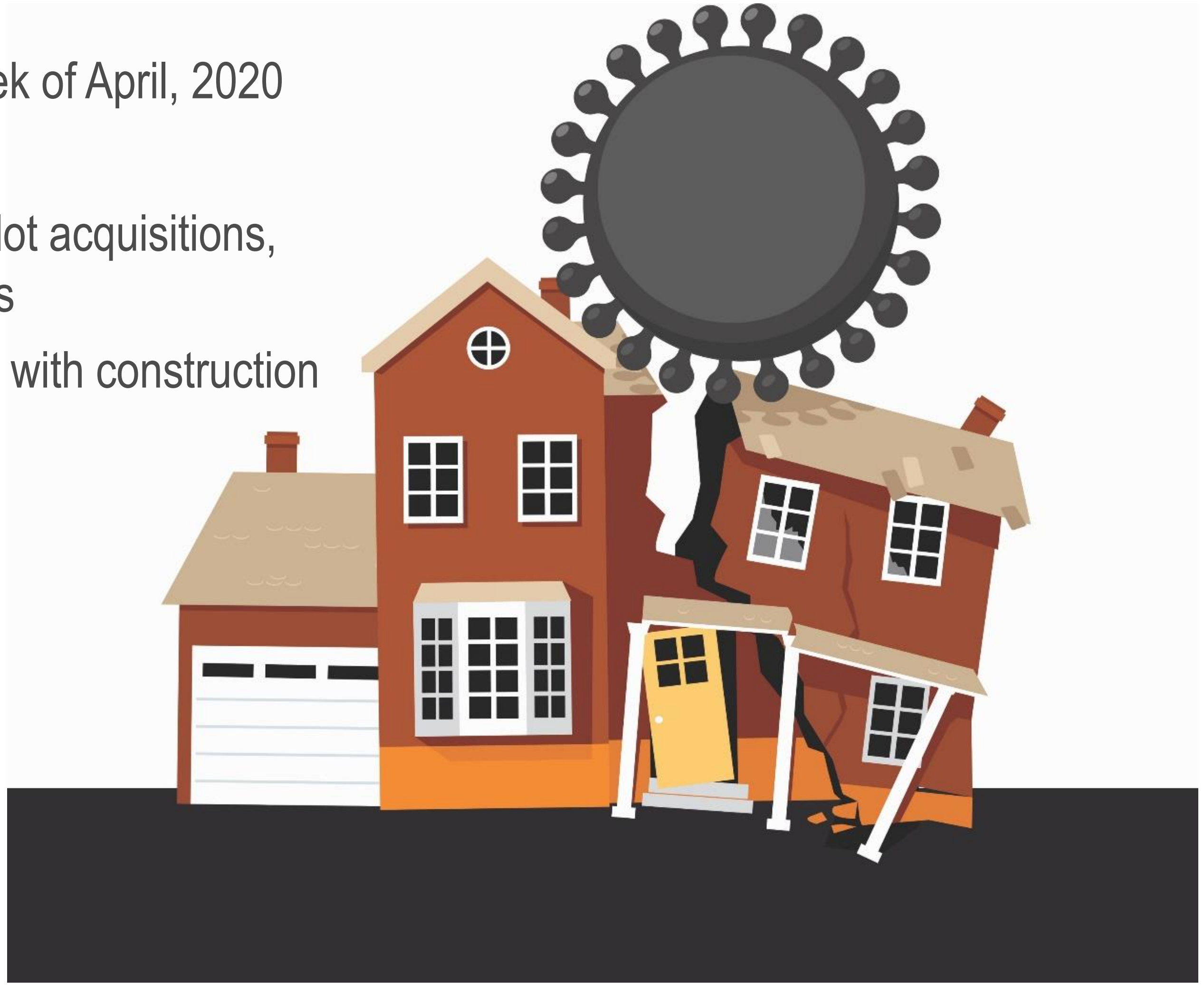


Fannie Mae forecast shows new single family sales pace dropping about 40% from the first quarter pace to the second quarter but catching up late 2021

Source: Fannie Mae

HOMEBUILDERS

- Homebuilders experienced a drop in new contracts in March and April
- Homes in escrow ARE closing
- Homebuilders experienced an increase in cancellations by the second week of April, 2020
- Homebuilders reducing their housing start projections for 2020
- Some homebuilders are still moving forward cautiously with new land and lot acquisitions, but many have hit the pause button – reviewing every deal, re-visting terms
- Many homebuilders pulling back on spec inventory while others continuing with construction
- Concerned they'll have substantial inventory on hand by July
- Spike in online traffic
- At 20% of sales volume now; expect to be at 50% in the summer
- SFR poised to step into the breach?

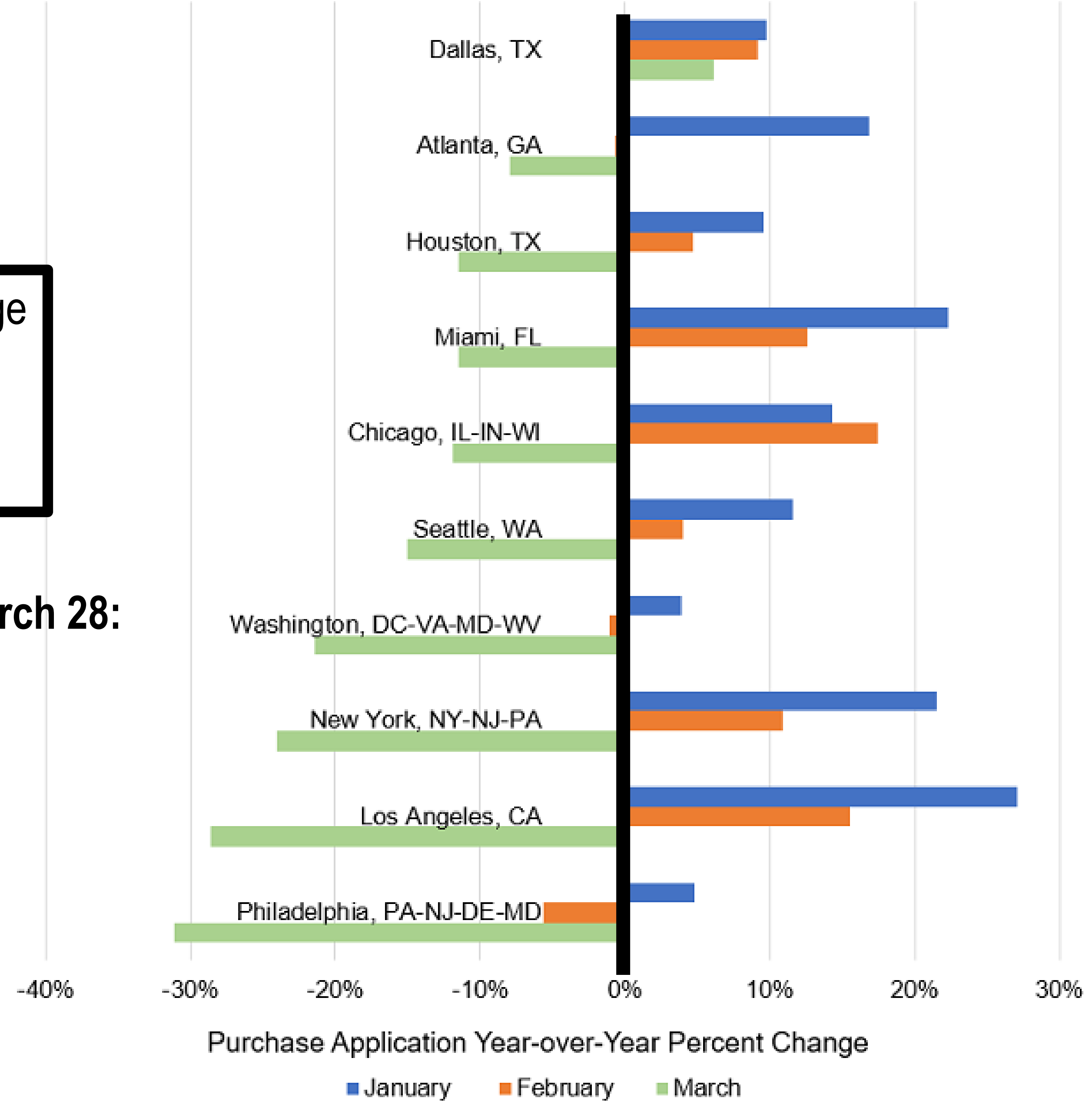


Source: RCLCO

HOME-PURCHASE LOAN APPLICATIONS FOR MAJOR MARKETS

Year-over-year change in March purchase applications down around 20%

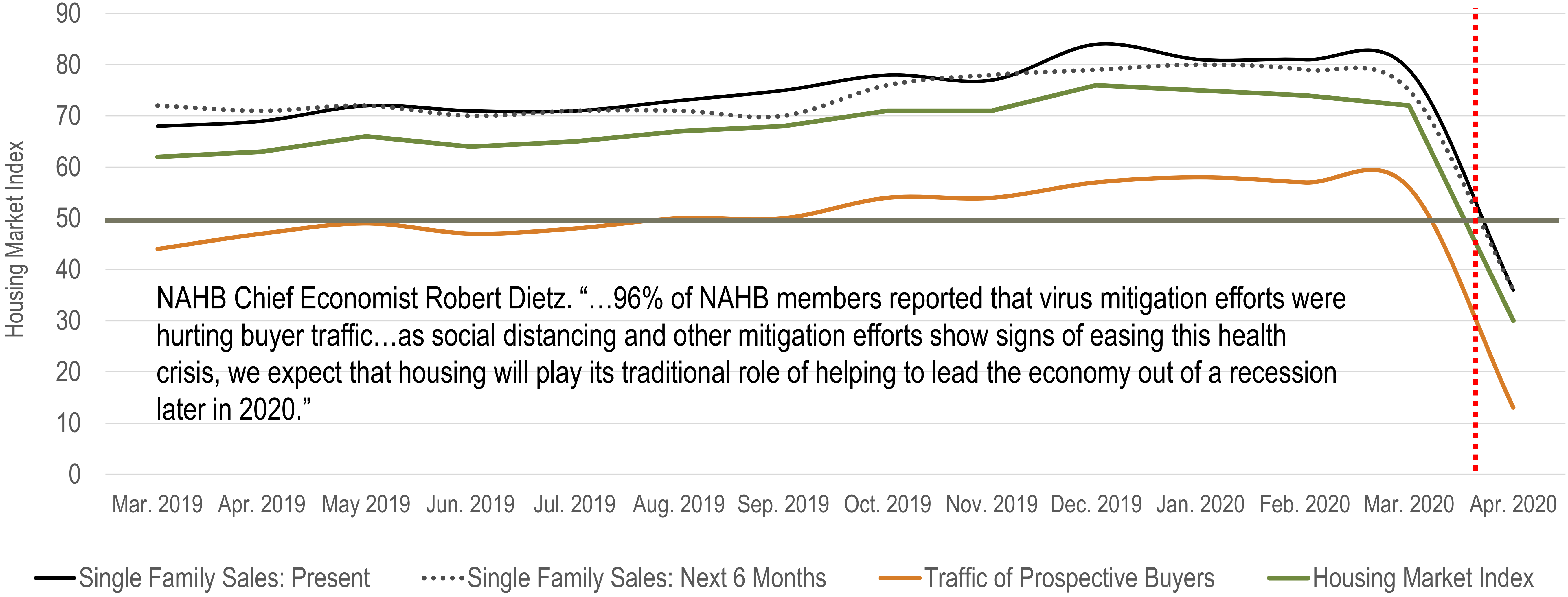
For the week ending March 28:
Miami -31%
Seattle -16%
Atlanta -15%
Chicago -15%



Year-over-year change in January/February purchase applications up almost 20%

Source: CoreLogic

NAHB HOUSING MARKET INDEX - PROJECTIONS



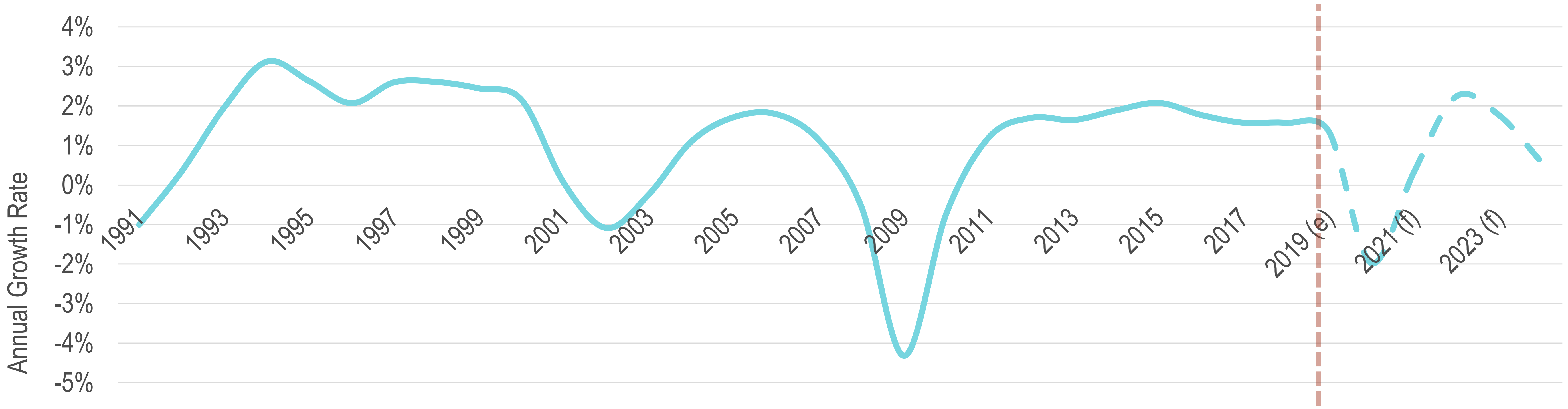
The NAHB/Wells Fargo Housing Market Index gauges builder perceptions of current single-family home sales and sales expectations for the next six months as "good," "fair" or "poor." The survey asks builders to rate traffic of prospective buyers as "high to very high," "average" or "low to very low." Scores are used to calculate index where any number over 50 indicates that more builders view conditions as good than poor.

Source: NAHB/Wells Fargo National and Regional Housing Market Index (HMI)

COVID-19 & U.S. EMPLOYMENT GROWTH

Updated: April 14, 2020, Moody's Economics

- Based on updated forecasts, the average monthly decline in employment will be **-600,000** in 2020
- Bulk of losses will be in Q2 2020 with employment falling by an average of **5** million per month.
- Peak to trough, employment is forecast to decline by **15.1** million, significantly more than the decline during the Great Recession.
- Employment is not expected to recoup all the declines until 2023.



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MPC MARKET PARTICIPANT INTERVIEWS

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MPC EXECUTIVE INTERVIEWS APRIL 7 - 14

- **MPC executive interviews representing over 50 active MPCs**
  - 12 states, including Florida, Texas, California, Arizona, Utah, Colorado, Virginia, North Carolina, Georgia, Washington, Oregon
- Optimism was high at the beginning of the year
  - Originally anticipated a strong Spring sales season - strong demand, low overall housing inventories and low mortgage rates
- February and first two weeks of March - strong traffic, sales, prices
- Starting mid-March traffic slowed, sales volume declined precipitously
- Communities reported declines in sales of about 30%-80% compared to expectations during these last two weeks

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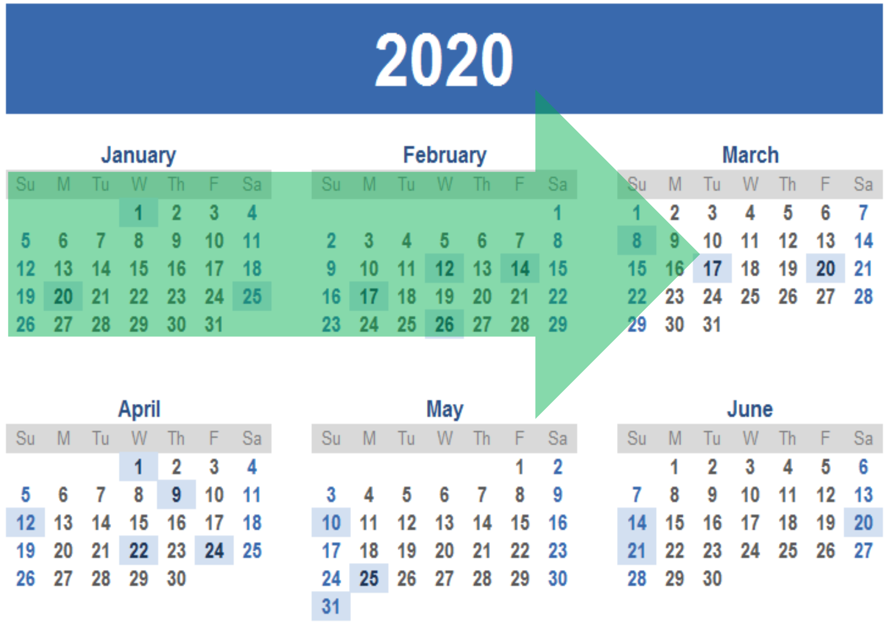
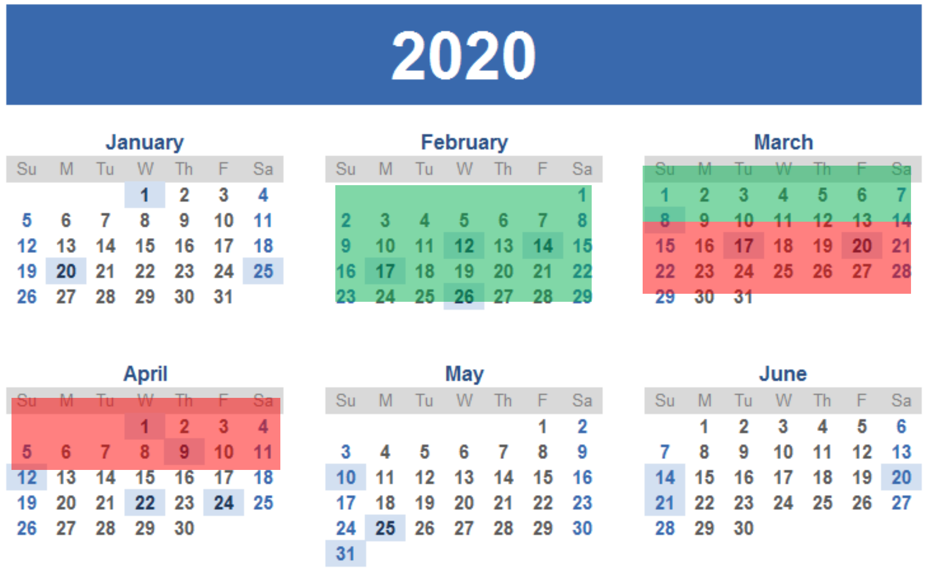
Source: RCLCO

MPC EXECUTIVE INTERVIEWS APRIL 7 - 14





- Despite these last two weeks, the strong numbers from the first half of March will mask the full impact on sales to date
- April sales so far are bleaker - likely off by half; as much as 80% some communities
- March to April cancellation rates increasing, up to 50% at some top MPCs
- Interviewees expect April and May will be the worst months in terms of impact, hoping for a rebound following the end to stay at home orders
- Regional differences: some MPC executives expect 2020 sales to be off by as much as 50%; others forecasting more moderate -15% +/-
- Most expecting sales to ramp up again with end of “stay at home” orders (June/July?)

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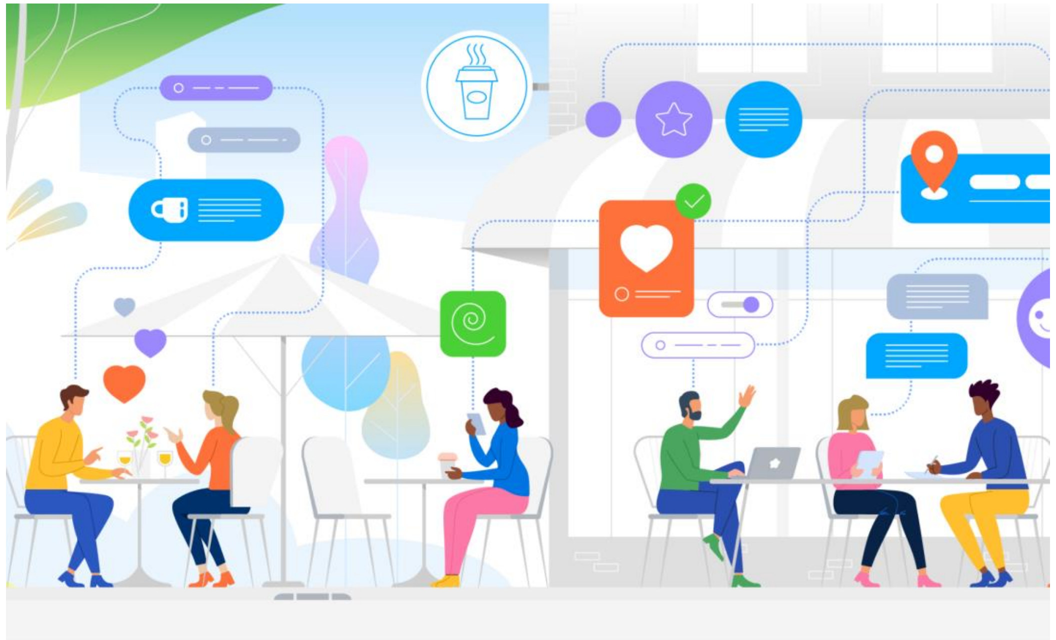
Source: RCLCO

MPC EXECUTIVE INTERVIEWS APRIL 7 - 14

- Quote: “When people don’t have jobs they don’t buy houses; not expecting significant recovery before September – then it depends on jobs”
  - “Biggest concern: employment, watching that closely”
- MPC’s say some Homebuilders asking to push lot takedowns back 30-60 days, or in some cases asking to reschedule in order to allocate more takedowns in the latter part of 2020
- Overall, most MPC’s say builders are not walking away from contracts already in place, but we did hear of instances of some national builders balking on contracts in progress, offering to continue with models and buy lots as needed
- Online traffic is up significantly (+25%-35%) as walk-in traffic plummeting; most MPC’s have strong social media implementations
- Grappling with how to sell “lifestyle” virtually?
- Quote “Feels better than ‘08 because not oversupplied”



Source: RCLCO

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MPC EXECUTIVE INTERVIEWS APRIL 7 - 14

- Where sales offices are open its by appointment only - and conversion rates are up
- Others shift to online-focused marketing, online-focused customer engagement, and online-focused resident interaction - very important part of business now and going forward
- Communities engaging residents, including online classes, online story-time for kids, virtual drink and recipe swaps, front porch photography, front porch time, teddy “bear hunting” in windows, coordination of food delivery at community centers, etc.
- Few MPCs anticipate significant impacts to price, believe that most builders are fairly well-positioned given generally low inventories, but that could change as situation evolves this month and next
- Situation could impact consumer preferences - being stuck inside may influence buyers to seek larger homes with more space overall
- Regionally, communities that get significant sales from New York, northeastern United States anticipate increase in sales from buyers motivated to get out of the higher density areas

Source: RCLCO

COVID-19 & LONG-TERM REAL ESTATE IMPACTS

- Already learning the need to adjust to new ways to transact business
- Prop tech across real estate is going to be big
- Intersection of real estate and virtual reality - camera's that build virtual 3D tours are in high demand
- Open houses that are broadcast on Facebook, Instagram and websites
- Banks supporting "desktop" appraisals
- Closings between cars in the parking lot – must find better solutions
- Opportunities for creative solutions

LONG-TERM HOUSING IMPACT

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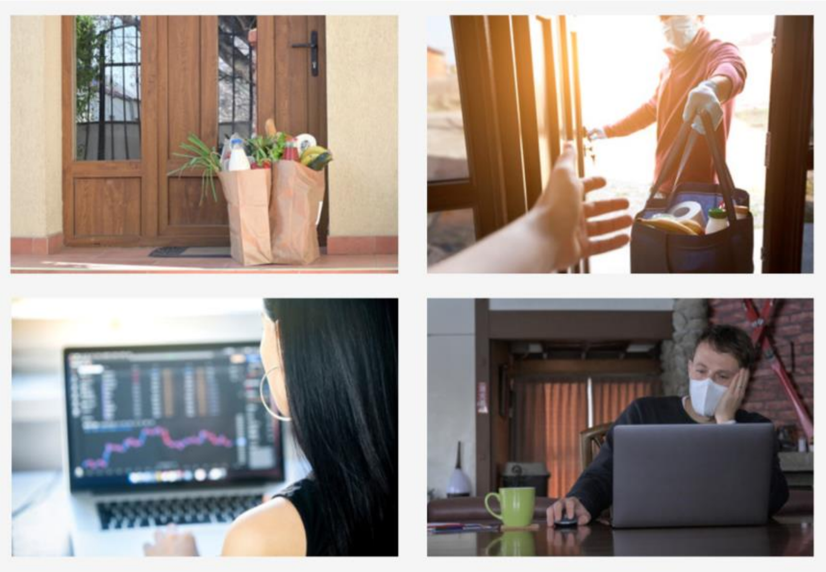
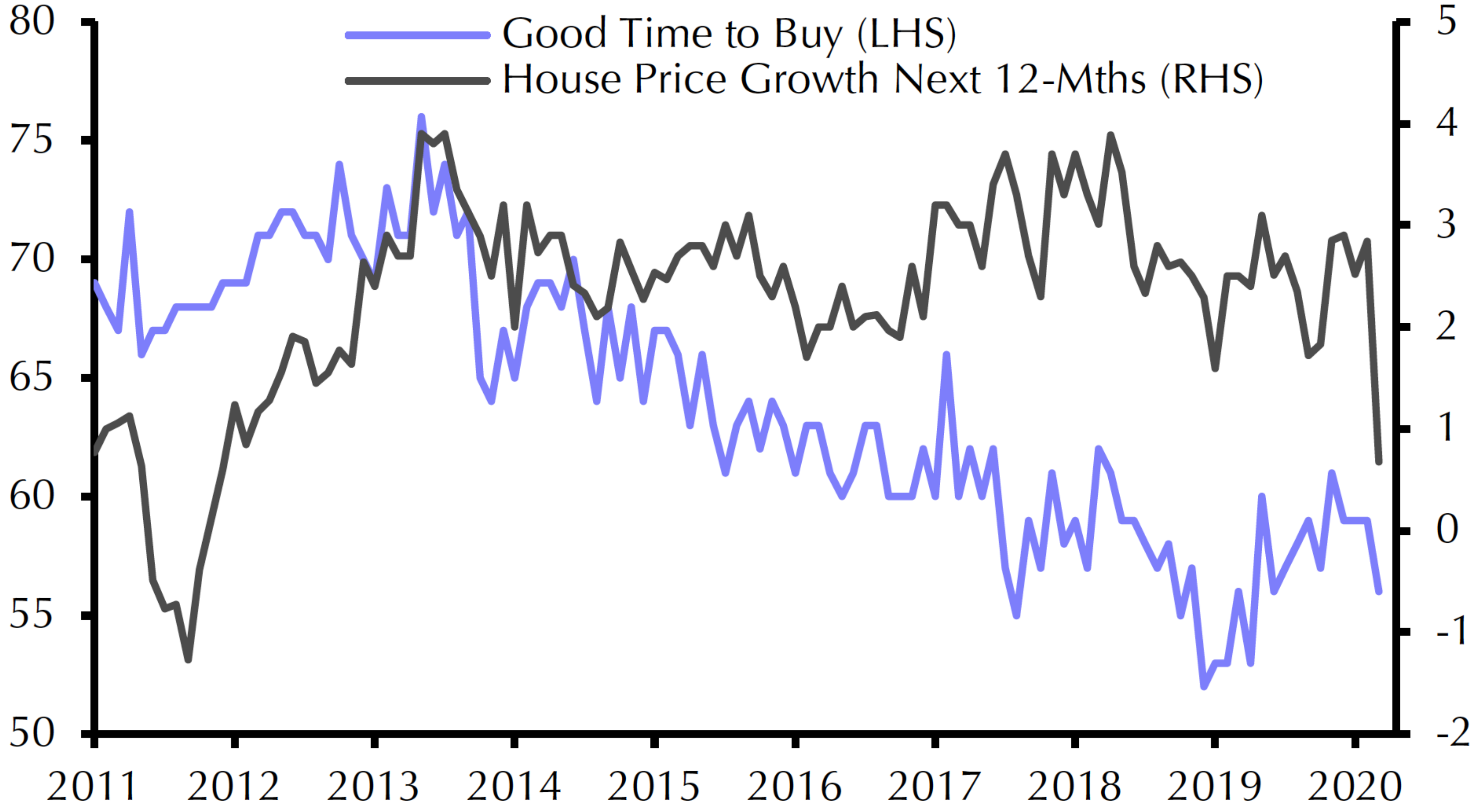
LONG-TERM HOUSING IMPACT

- Re-thinking the house as a retreat from viruses and infections
- What is “home” when its also his and her office, a virtual school, restaurant, playground, gym?
- Fewer open-plan spaces, entrance areas separated so families can leave shoes, clothing and belongings “outside”, and so activities and family members have private spaces
- Better ways of handling (without handling) deliveries
- Home offices with green screens for your Zoom virtual background
- How do we feel about density after dense places like New York had higher infection rates?
- Demand for more touchless technology in high-rise buildings
- Increased demand for remotely accessible technology like locks and thermostats
- Better outdoor spaces, patios, and decks so you can get out without going out



OVER HALF BUYERS STILL THINK GOOD TIME TO BUY (FNMA)

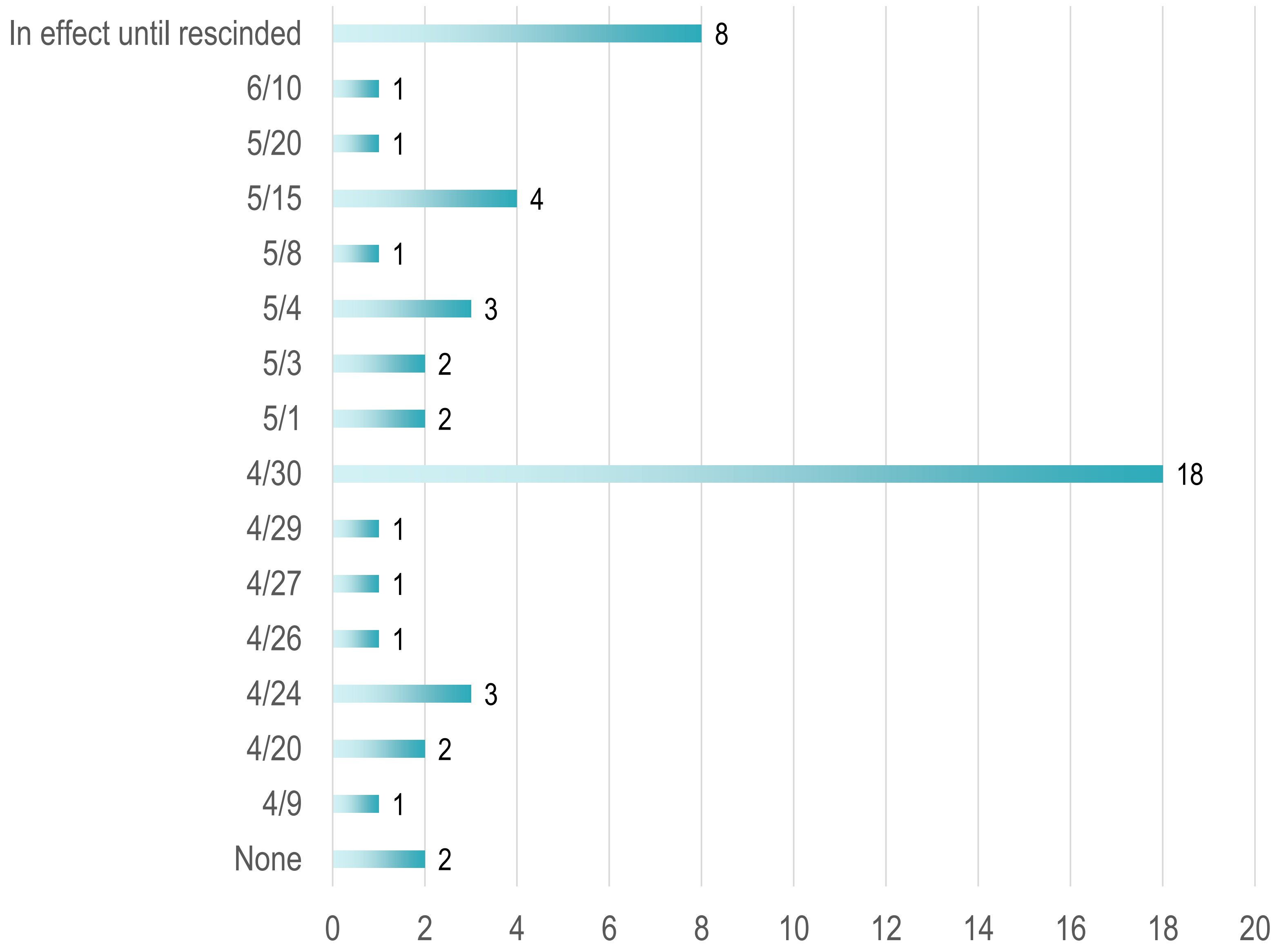
Some households maybe ready to take advantage of record low mortgage rates, and maybe lower house prices and increased inventory, when the economy reopens.



Source: Fannie Mae

WILL SALES PICK UP WHEN "STAY AT HOME" ENDS?

End Date	States Included
None	Wyoming, Indiana
4/9	South Dakota
4/20	Indiana, Mississippi
4/24	Missouri, Montana, Wisconsin
4/26	Colorado
4/27	South Carolina
4/29	North Carolina
4/30	Alabama, Arizona, Florida, Georgia, Hawaii, Idaho, Illinois, Iowa, Louisiana, Maine, Michigan, Nebraska, Nevada, New Mexico, Oklahoma, Pennsylvania, Tennessee, Texas
5/1	Ohio, Utah
5/3	Kansas, Minnesota
5/4	Massachusetts, New Hampshire, Washington
5/8	Rhode Island
5/15	Delaware, DC, New York, Vermont
5/20	Connecticut
6/10	Virginia
In effect until rescinded	Alaska, California, Kentucky, Maryland, New Jersey, North Dakota, Oregon, West Virginia



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Source: CNN

COVID-19 & RCLCO POV – THREE STAGES TO RECOVERY IN U.S.

STAGE 1: <u>FLATTENED CURVE</u> - no/limited new cases: 1-2 months - U.S. curve flattens in late April/early May

a) Days to flatten the curve (after initial 100 cases):
   - China: 30; South Korea: ~20; Italy: 50-60?; Spain: 42-50?
   - U.S. is in day 40; looking a lot like Italy in terms of growth rate

b) Allows for longer list of "essential services," return of some consumer confidence that leads to more spending

c) Economic Impacts:
   - From first case to flattening: **-20%** to **-25%** decline in GDP, -**20** plus million lost jobs
   - During 1-2 month "flattened" period, expect **+5%** increase in GDP as more of the "essential" economy gets back to work (e.g., China)

d) Real Estate Impacts:
   - Conditions during "shut-down" period, property-/project-level revenues down:
     - Industrial: -0% to -5%
     - Multifamily: -5% to -15%
     - For-Sale: -50% to -80%
     - Retail: -50% to -90%
     - Hospitality: -80% to -100%
   - Steep drop in transactions (only deep distress or long-term strategic take place)
   - Limited valuation impacts given uncertainty, lack of comps
   - Debt capital markets highly constrained

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Updated: April 17, 2020, RCLCO

COVID-19 & RCLCO POV – THREE STAGES TO RECOVERY IN U.S.

STAGE 2: <u>DECLINING CASES</u> (significantly improved testing and focused quarantining, more recovered than active cases: 2-3 months): Mid-June

a) Wuhan reopened 46 days after curve was flattened - if U.S. performs similarly, could "reopen" by mid-June
b) Many more go back to work, but situation still not normal (schools still closed, hesitation to travel, dine in restaurants, etc., still significant teleworking)
c) Economic impacts:
   - Half of GDP decline is rapidly regained (~7.5% to 10%) and grows from there
   - Net GDP result in Q2 2020: -10% to -15%
   - If this stage continues through Q3 2020: expect return to +5% to +6% growth during the quarter (net GDP growth of -10% for Q3 2020)
d) Real Estate Impacts:
   - Steadily improving conditions, with property-level impacts:
     - Industrial snaps back to trend line
     - Multifamily and office collections resume and improve, but still not pre-Covid-19
     - Retail still suffers (gains back half of losses over time)
     - Hospitality still suffers (gains back 25% over time)
   - Transaction activity increases as owners rebalance, transfer gains to dry powder
     - Valuations driven primarily by DCF and based on pre-Covid-19 discount rates
     - Debt capital markets open again for quality projects and sponsors
     - Growing interest in assets that reflect "new" or "changed" demand: industrial, data centers, SFR, life sciences, "healthy" office & MF

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STAGE 3: <u>HEALTHCARE BREAKTHROUGH</u> - more effective testing & treatment, but prior to true vaccine – Q4 2020:

a) Back to a "new normal": people are back to work, spending money, traveling by plane, but:
   - Some economic sectors and property types never fully recover
   - Others experience "space-age" type growth as preferences shift

b) Timing TBD, but research so far is promising

c) Our base case assumes some type of "breakthrough" by or during Q4 2020

d) Economic impacts:
   - Assume growth back to pre-Covid-19 GDP and employment during Q1 2021
   - +5 to +10% GDP growth during Q4 2020
   - Net GDP growth for 2020: -5% to -6%

e) Real Estate Impacts:
   - Rapidly improving performance for "relevant" property types (delayed supply and pent-up demand) and increasing levels of transaction activity
     - Industrial continues to be hot
     - High-quality multifamily and office collections start to match or exceed pre-Covid-19
     - All types of retail lag, but steadily improves
     - Hospitality also lags but features steady improvement
   - Transaction activity increases due to growing RE allocations, growing asset bases
     - Similar valuation approach, but more aggressive growth assumed
     - Debt capital markets open for wider range of risk profiles

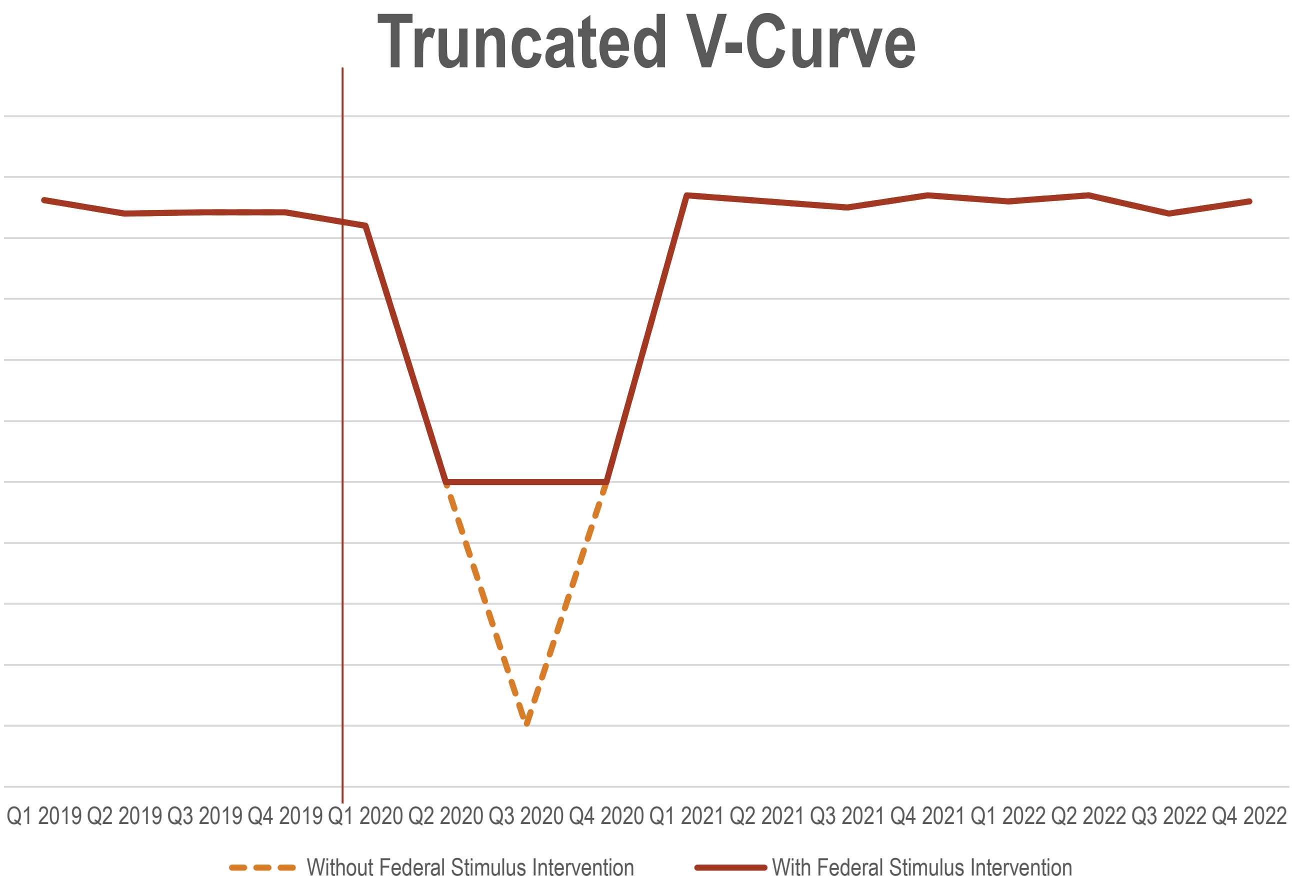
f) Downside Scenario: no healthcare breakthrough results in longer & slower recovery with additional -3% decline in 2020 GDP

COVID-19 & RCLCO POV – THREE STAGES TO RECOVERY IN U.S.

STAGE 1:	**FLATTENED CURVE**	**Late April/early May 2020**
STAGE 2:	**DECLINING CASES**	**Mid-June 2020**
STAGE 3:	**HEALTHCARE BREAKTHROUGH**	**Q4 2020**

TRUNKCATED V-CURVE:

- **2020 GDP -5% to -6%**
- **2021 GDP +5% to +7%**



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DISCLAIMERS

CRITICAL ASSUMPTIONS

Our conclusions are based on our analysis of the information available from our own sources and from the client as of the date of this report. We assume that the information is correct, complete, and reliable.

We made certain assumptions about the future performance of the global, national, and local economy and real estate market, and on other factors similarly outside either our control or that of the client. We analyzed trends and the information available to us in drawing these conclusions. However, given the fluid and dynamic nature of the economy and real estate markets, as well as the uncertainty surrounding particularly the near-term future, it is critical to monitor the economy and real estate markets continuously and to revisit the aforementioned conclusions periodically to ensure that they are reflective of changing market conditions.

This is particularly the case in light of recent developments that have occurred in Q1 2020, including fears of disruption due to the novel coronavirus, a price war that has precipitated a sharp drop in global oil prices, and concern over the level of corporate debt in the U.S. that could become a problem in a slowing economy. These events underscore the notion that stable and moderate growth patterns are historically not sustainable over extended periods of time, the economy is cyclical, and real estate markets are typically highly sensitive to business cycles. Further, it is particularly difficult to predict inflection points, including when economic and real estate expansions will end, and when downturn conditions return to expansion.

Our analysis and recommendations are based on information available to us at the time of the writing of this report, including the likelihood of a downturn, length and duration, but it does not consider the potential impact of additional/future shocks on the national and/or local economy, and does not consider the potential benefits from major "booms" that may occur. Similarly, the analysis does not reflect the residual impact on the real estate market and the competitive environment of such a shock or boom. Also, it is important to note that it is difficult to predict changing consumer and market psychology. As such, we recommend the close monitoring of the economy and the marketplace, and updating this analysis as appropriate.

Further, any project and investment economics included in our analysis and reports should be “stress tested” to ensure that potential fluctuations in revenue and cost assumptions resulting from alternative scenarios regarding the economy and real estate market conditions will not cause unacceptable levels of risk or failure.

In addition, and unless stated otherwise in our analysis and reports, we assume that the following will occur in accordance with current expectations by market participants:

- Tax laws (i.e., property and income tax rates, deductibility of mortgage interest, and so forth)
- Availability and cost of capital and mortgage financing for real estate developers, owners and buyers
- Competitive supply (both active and future) will be delivered to the market as planned, and that a reasonable stream of supply offerings will satisfy real estate demand
- Major public works projects occur and are completed as planned

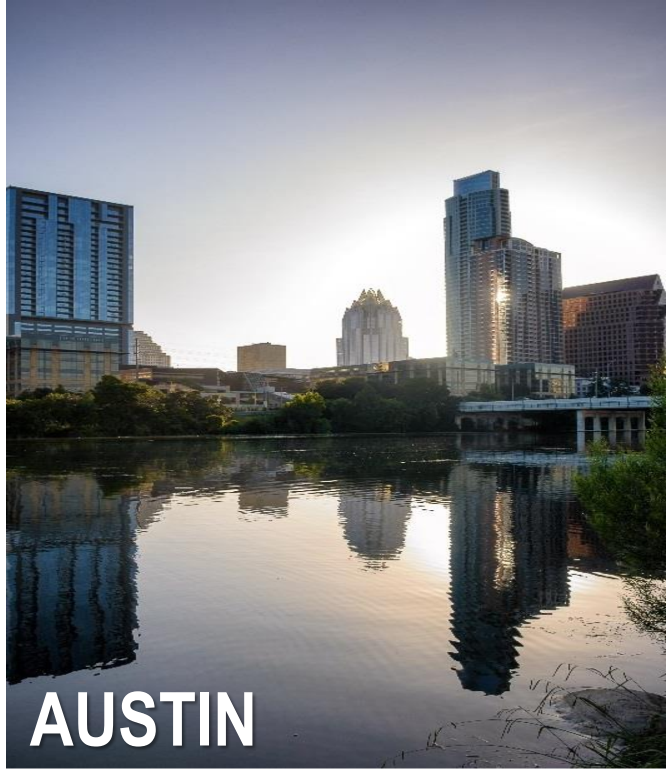
Should any of the above change, this analysis should be updated, with the conclusions reviewed accordingly (and possibly revised).

GENERAL LIMITING CONDITIONS

Reasonable efforts have been made to ensure that the data contained in this study reflect accurate and timely information and are believed to be reliable. This study is based on estimates, assumptions, and other information developed by RCLCO from its independent research effort, general knowledge of the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent, and representatives or in any other data source used in preparing or presenting this study. This report is based on information that to our knowledge was current as of the date of this report, and RCLCO has not undertaken any update of its research effort since such date.

Our report may contain prospective financial information, estimates, or opinions that represent our view of reasonable expectations at a particular time, but such information, estimates, or opinions are not offered as predictions or assurances that a particular level of income or profit will be achieved, that particular events will occur, or that a particular price will be offered or accepted. Actual results achieved during the period covered by our prospective financial analysis may vary from those described in our report, and the variations may be material. Therefore, no warranty or representation is made by RCLCO that any of the projected values or results contained in this study will be achieved.

Possession of this study does not carry with it the right of publication thereof or to use the name of "Robert Charles Lesser & Co." or "RCLCO" in any manner without first obtaining the prior written consent of RCLCO. No abstracting, excerpting, or summarization of this study may be made without first obtaining the prior written consent of RCLCO. This report is not to be used in conjunction with any public or private offering of securities or other similar purpose where it may be relied upon to any degree by any person other than the client without first obtaining the prior written consent of RCLCO. This study may not be used for any purpose other than that for which it is prepared or for which prior written consent has first been obtained from RCLCO.



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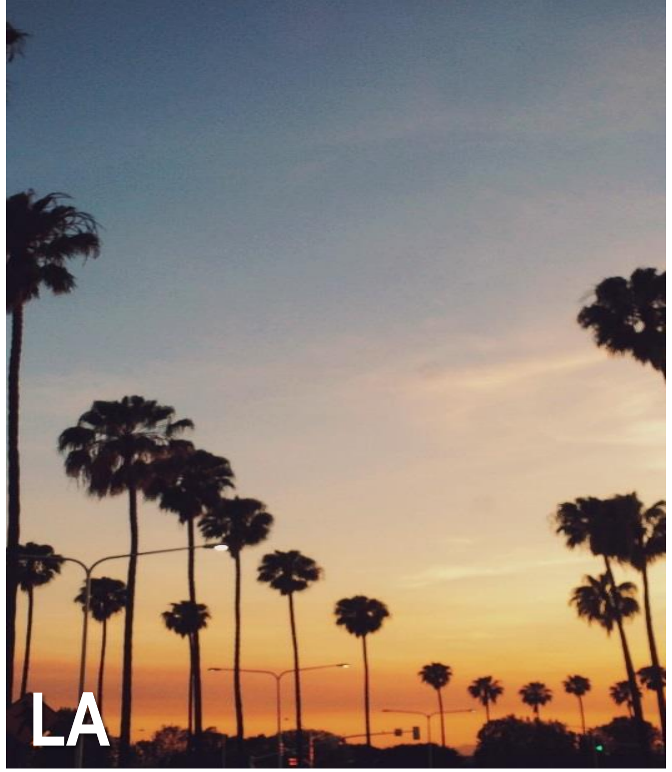

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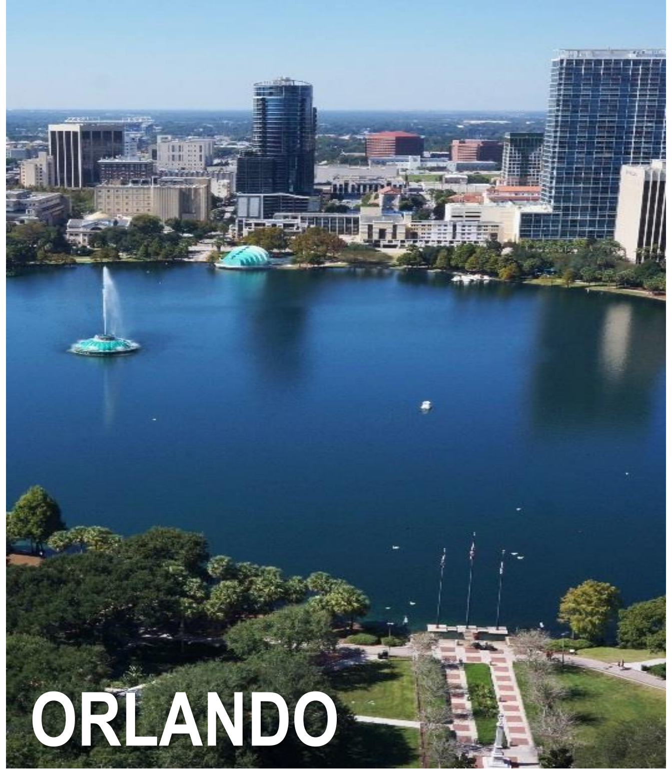

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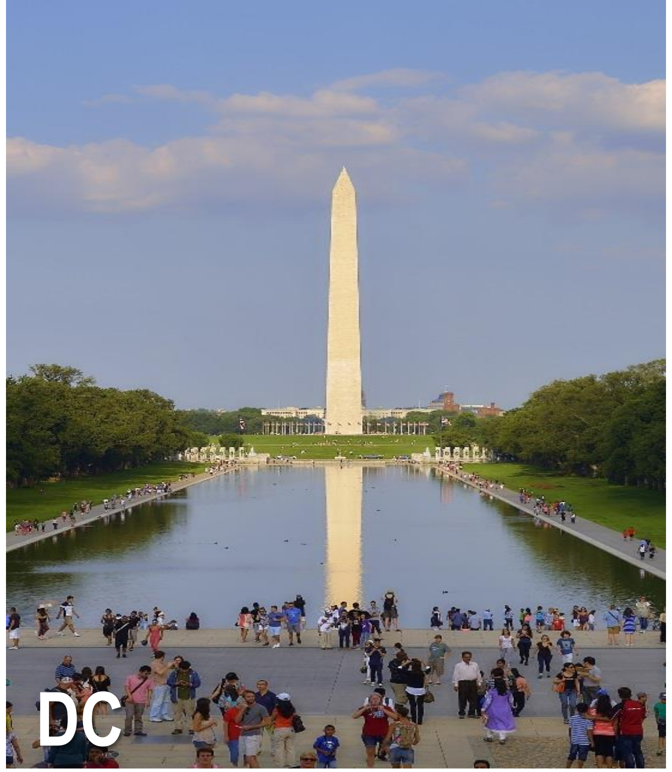

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