FRIDAY ROUND-UP WITH RCLCO: Top 5 COVID-19 Related Real Estate Myths That Need to Be Debunked

June 5th, 2020

Joshua A. Boren,
Director of Business Development

RCLCO
REAL ESTATE ADVISORS

TODAY'S PANELISTS

Erin Talkington
Managing Director
P: (240) 396-2353
E: etalkington@rclco.com

Todd LaRue
Managing Director
P: (512) 215-3157
E: tlarue@rclco.com

Gregg Logan
Managing Director
P: (407) 515-4999
E: glogan@rclco.com

Ben Maslan
Managing Director
P: (310) 341-7948
E: bmaslan@rclco.com

Rick Pollack
Principal
P: (240) 752-6987
E: rpollack@rclco.com

Joshua A. Boren
Director of Business Development
P: (310) 984-1757
E: jboren@rclco.com

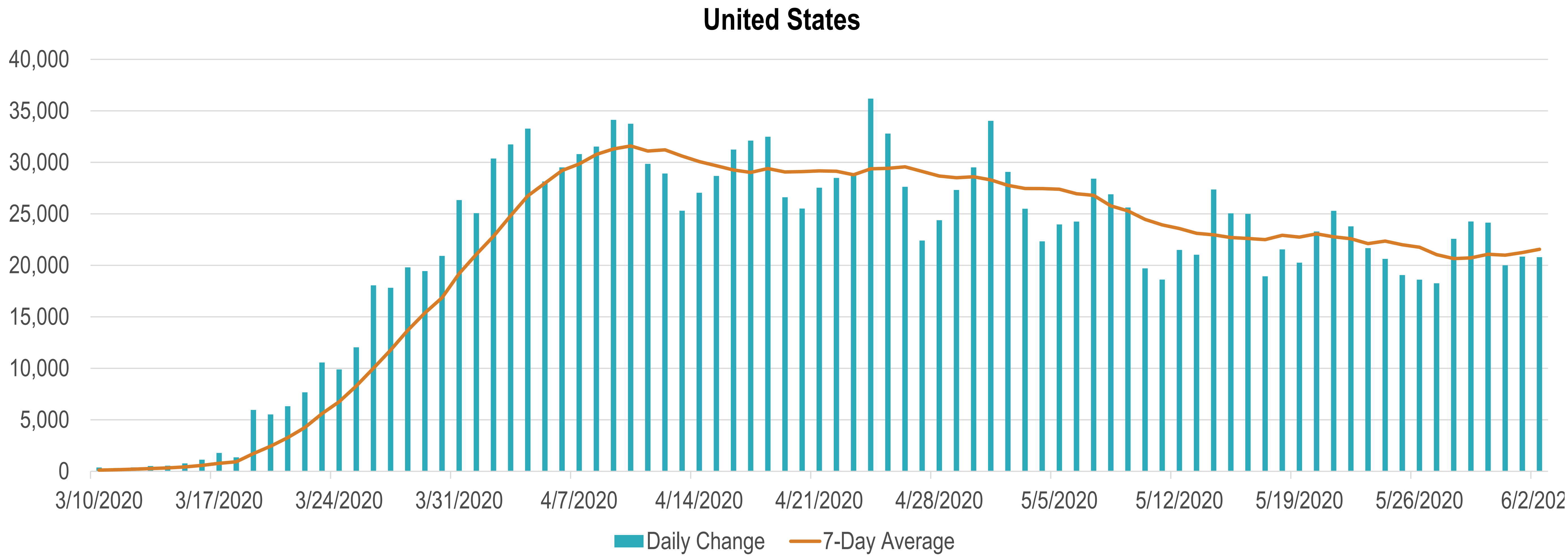
RCLCO REAL ESTATE ADVISORS

WEEKLY UPDATE

COVID-19 & THE CURVE

Updated: June 4, 2020, HDE

Prior to the development and distribution of an effective and safe vaccine for COVID-19, the single most important metric for determining our ability to return to economic growth mode is the "flattening of the curve" of new cases.

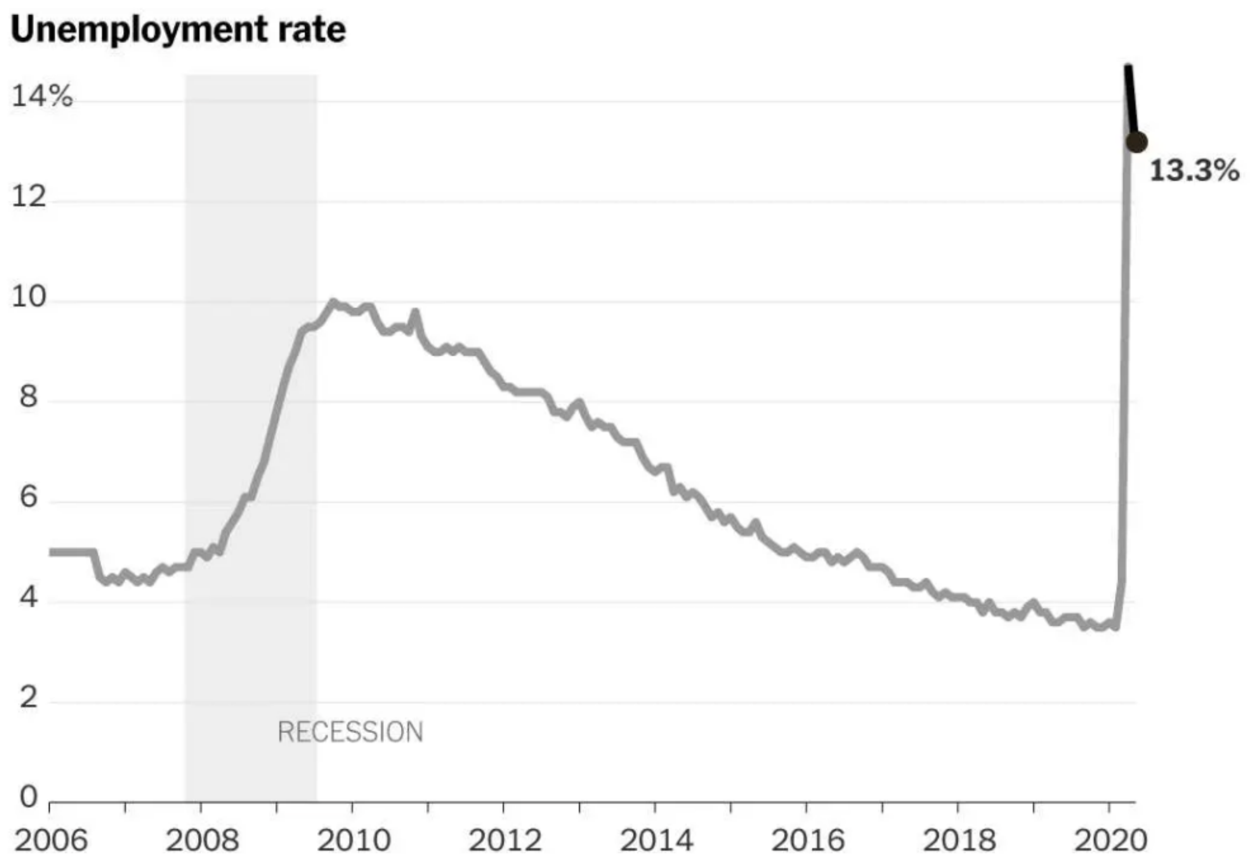


Source: Human Data Exchange; RCLCO

COVID-19 & UNEMPLOYMENT

Updated: June 5, 2020

- The job market unexpectedly reversed its free fall in May as employers brought back millions of workers and the unemployment rate declined.
- Tens of millions remain out of work, and the unemployment rate, which fell to 13.3 percent from 14.7 percent in April, remains higher than in any previous postwar recession
- Restaurants and bars, health care employers and construction were among the sectors that drove the May job market improvement, based on the Labor Department's report

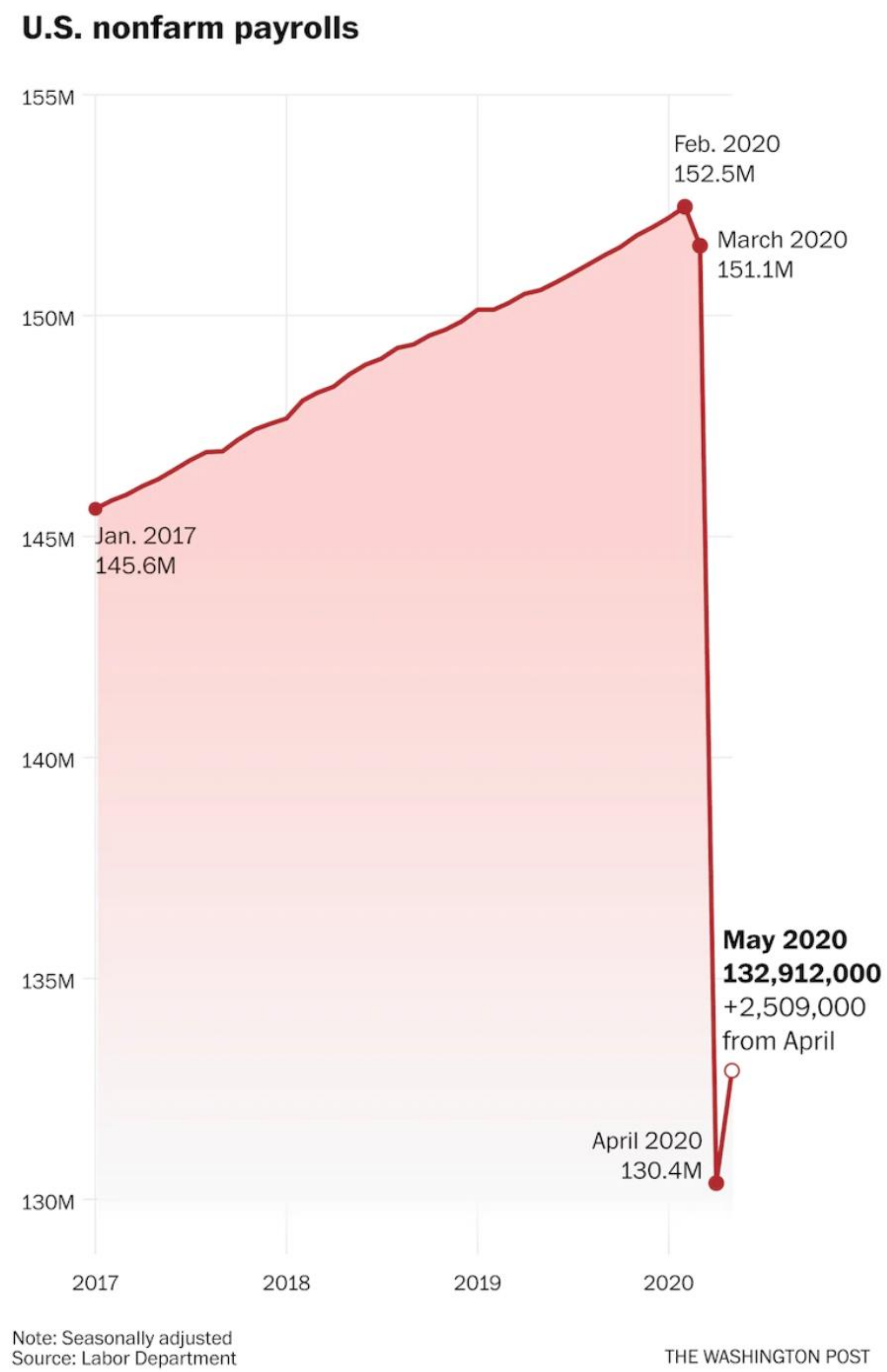


RCLCO REAL ESTATE ADVISORS

COVID-19 & EMPLOYMENT

Update: June 5, 2020, Labor Department, WP

- The economy gained +**2,509,000** jobs in May
  - Approximately two-fifths of the growth was driven by part-time jobs
  - The CBO forecasts unemployment levels continuing at above 10% into 2021
  - Moody's Investor Services forecast that unemployment will sink to 8.5% by the end of the year as the country reopens and people get back to work.



RCLCO
REAL ESTATE ADVISORS

https://www.washingtonpost.com/business/2020/06/05/may-2020-jobs-report/

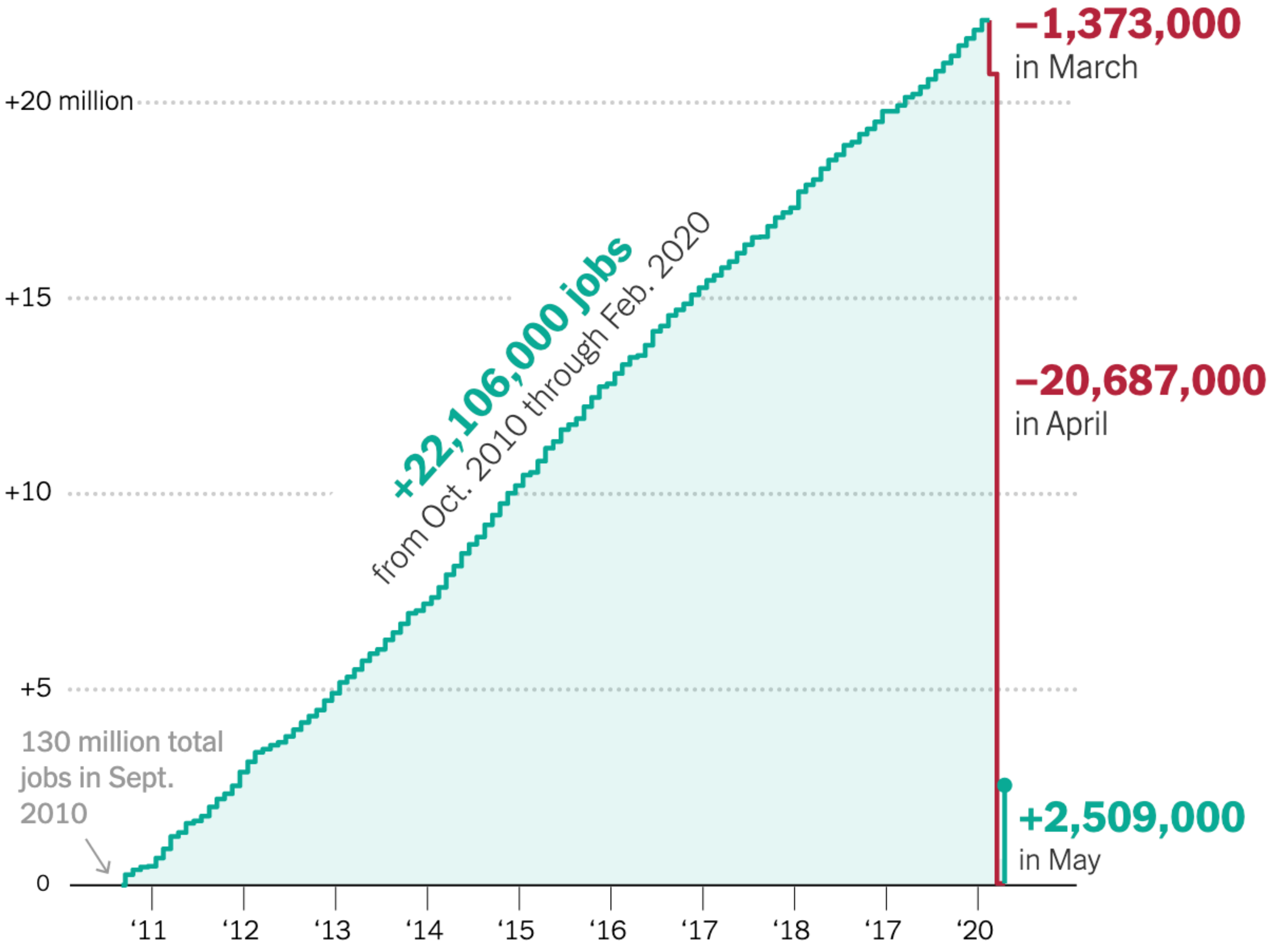
COVID-19 & UNEMPLOYMENT

Updated: June 5, 2020

- Overall the job losses in March, April and early May wiped out most of the job gains since the beginning of the recovery in 2010

Cumulative monthly change in jobs since September 2010

Job losses in March and April nearly wiped out the previous 113 months of job gains, but May showed a partial comeback.



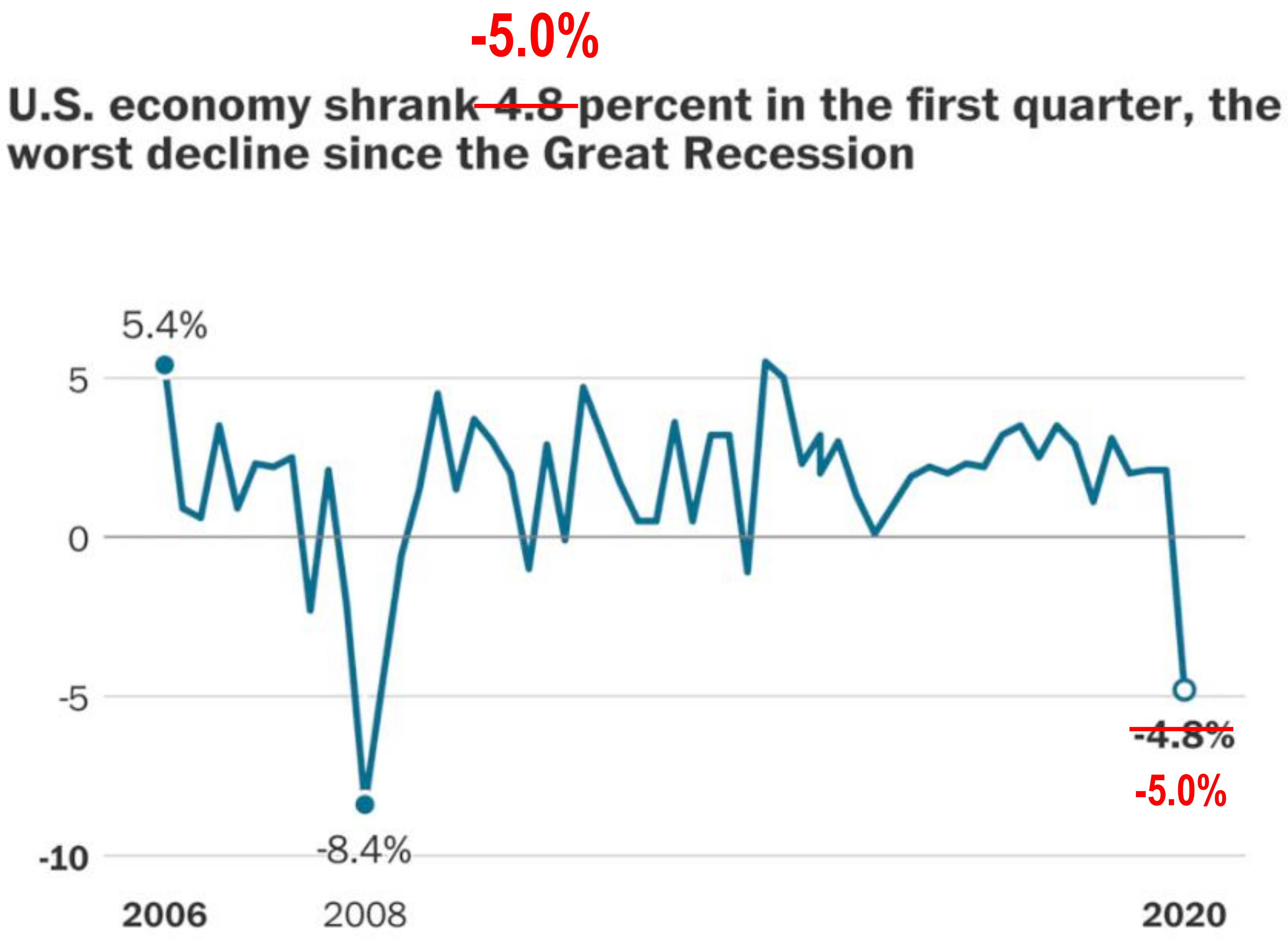
By Ella Koeze · Source: Bureau of Labor Statistics

RCLCO REAL ESTATE ADVISORS

COVID-19 & GDP GROWTH

Updated: May 28, 2020, BEA

- U.S. GDP shrank **-5.0%** in Q1 2020, a slightly steeper decline than was initially estimated
  - The only good news is that economists had expected the Commerce Department to revise this even lower to perhaps -8% to -11%, so yeah?

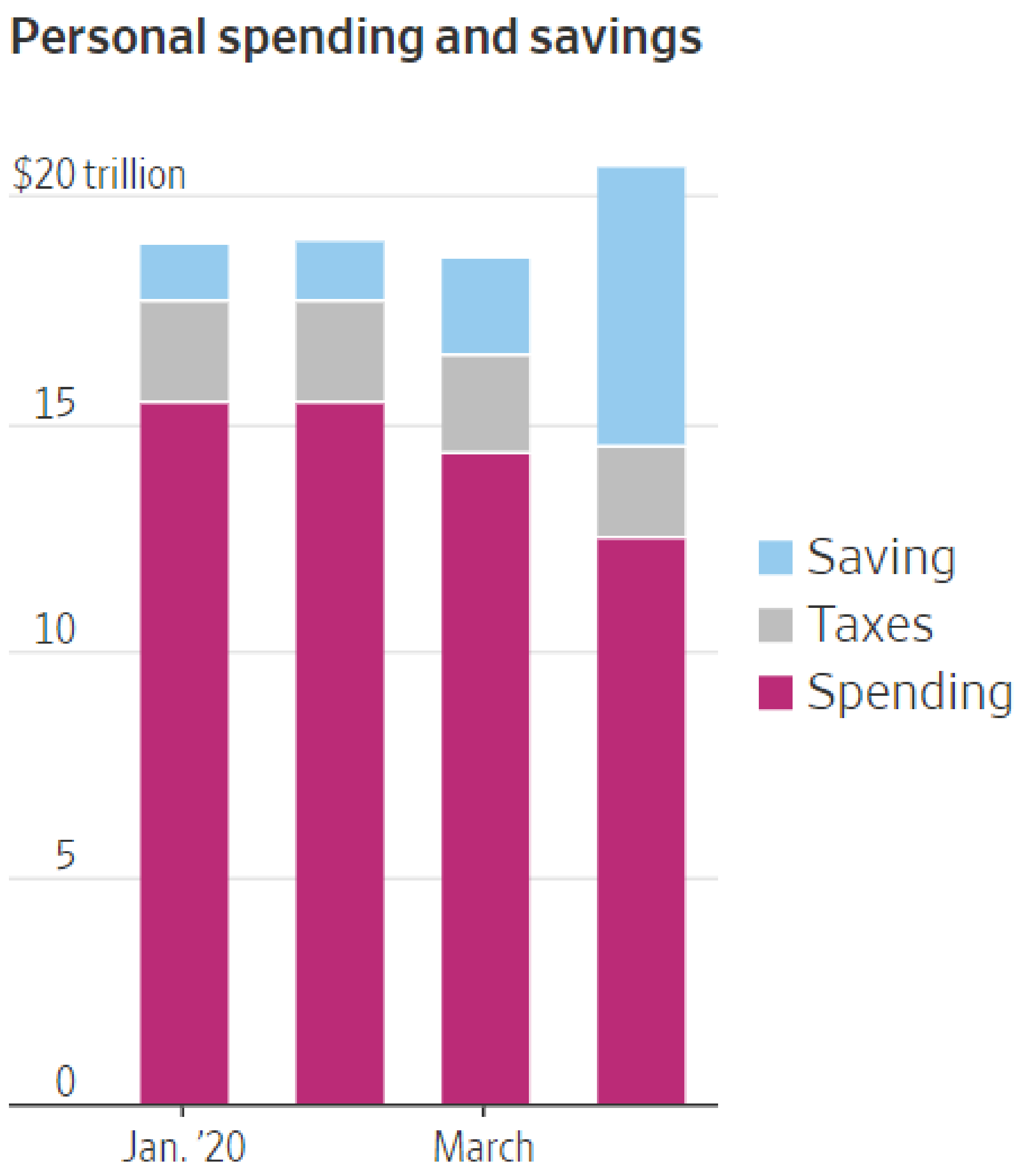


RCLCO
REAL ESTATE ADVISORS

COVID-19 & CONSUMER SPENDING

Updated: May 29, 2020, U.S. Commerce

- U.S. consumer spending fell -13.6% in April, on the heels of a -7.5% drop in March
  - This represents the steepest decline since 1959
  - Personal income, which includes wages, interest and dividends increased in April due primarily to a sharp rise in "government social benefits"



-7.5% **-13.6%**

Note: Seasonally adjusted at an annual rate

Source: Commerce Department

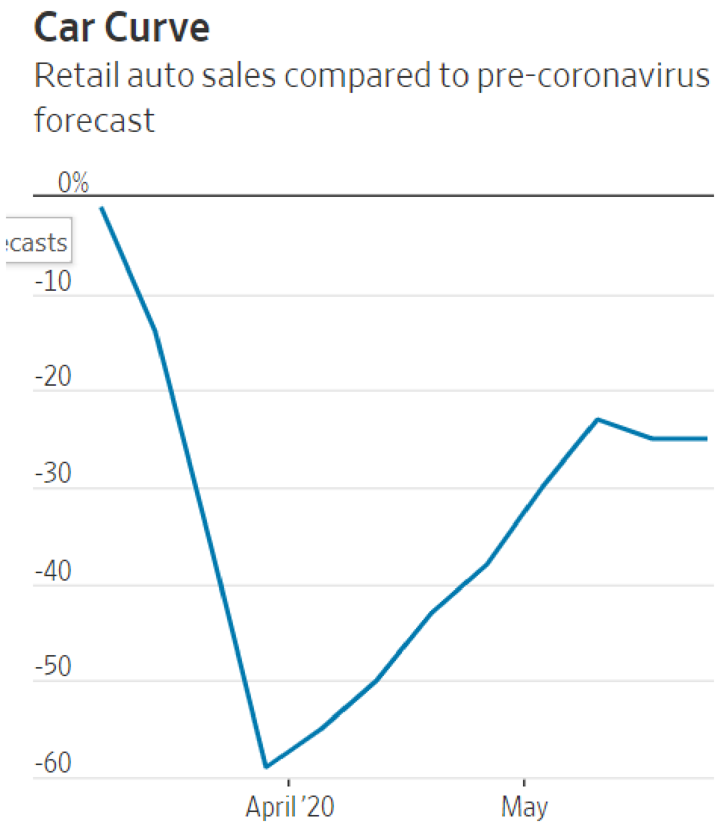
https://www.wsj.com/livecoverage/coronavirus-2020-04-30?mod=theme_coronavirus-ribbon

RCLCO REAL ESTATE ADVISORS

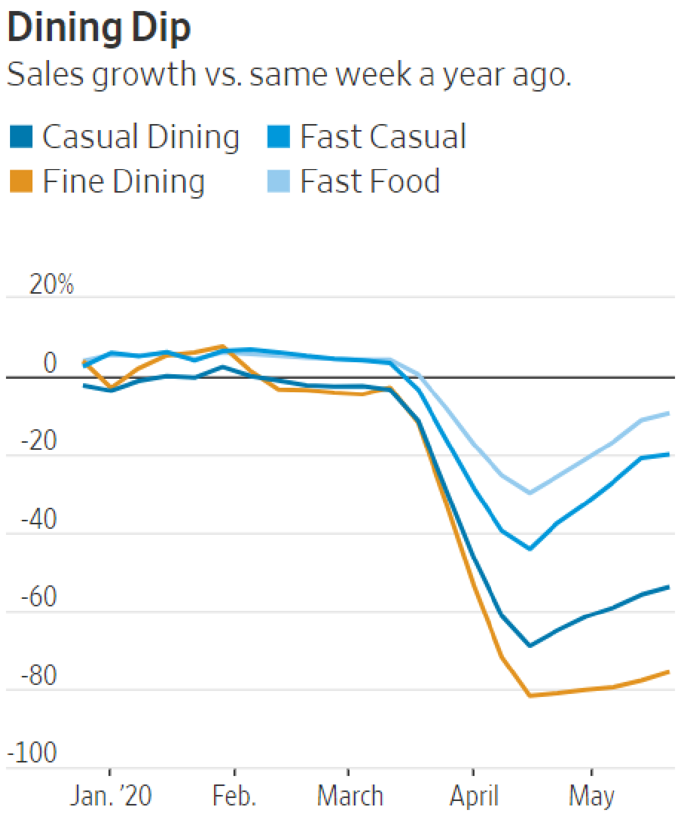
COVID-19 & THE BOUNCE BACK

Updated: May 29, 2020, J.D. Power, Earnest Research, WSJ

- Some data suggests the beginning of a stabilization
  - Looking for signs of a bounce back, the "Car Curve" auto sales is down "only" **-25%** in May, compared with the rock bottom **-60%** in the beginning of April
  - The "Dining Dip" also shows signs of increasing sales growth, but at a fairly slow pace



Source: J.D. Power



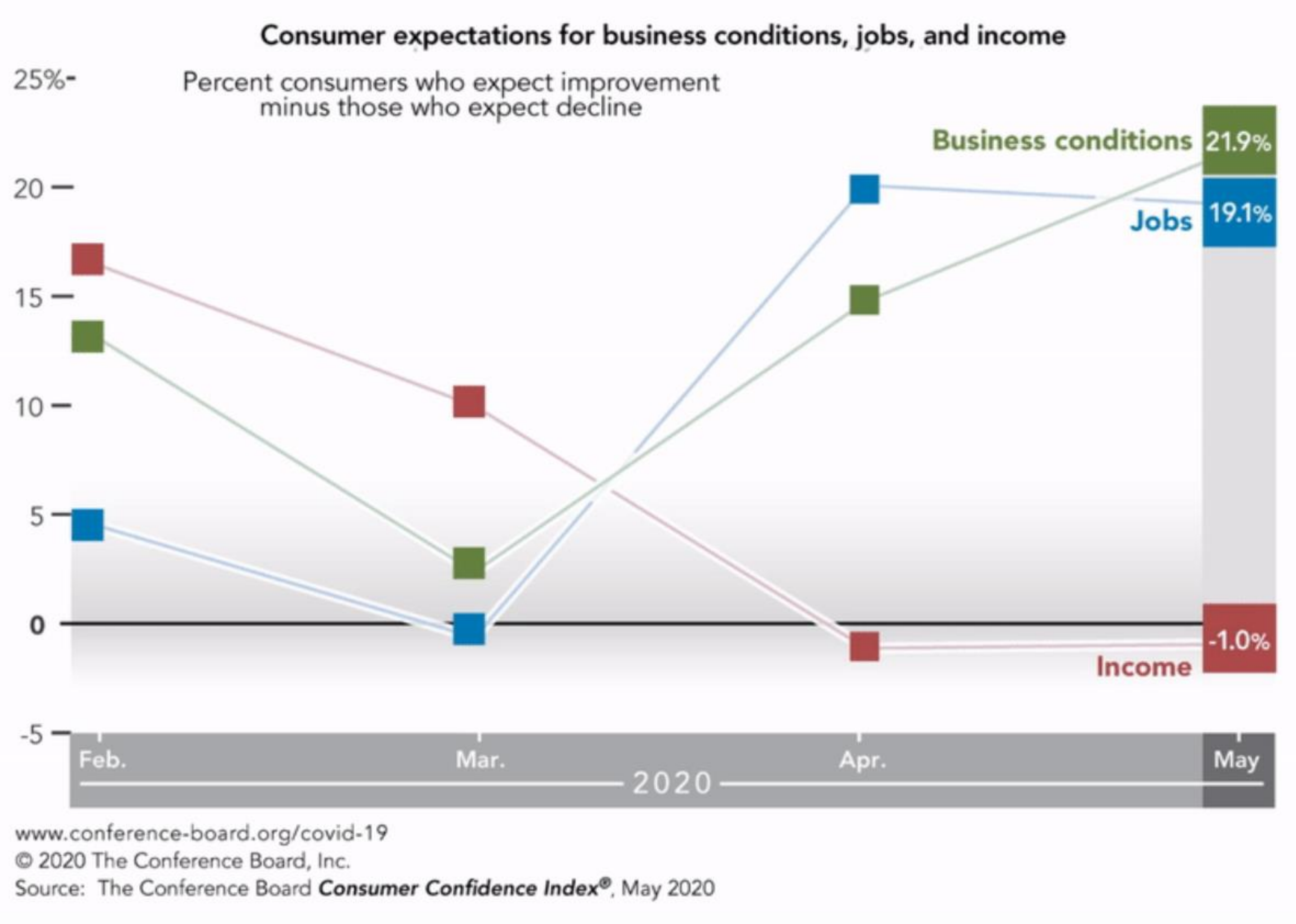
Source: Earnest Research

RCLCO
REAL ESTATE ADVISORS

COVID-19 & CONSUMER CONFIDENCE

Updated: June 2, 2020, The Conference Board

- Reopening of economy stabilizes consumer confidence but concern remains about income



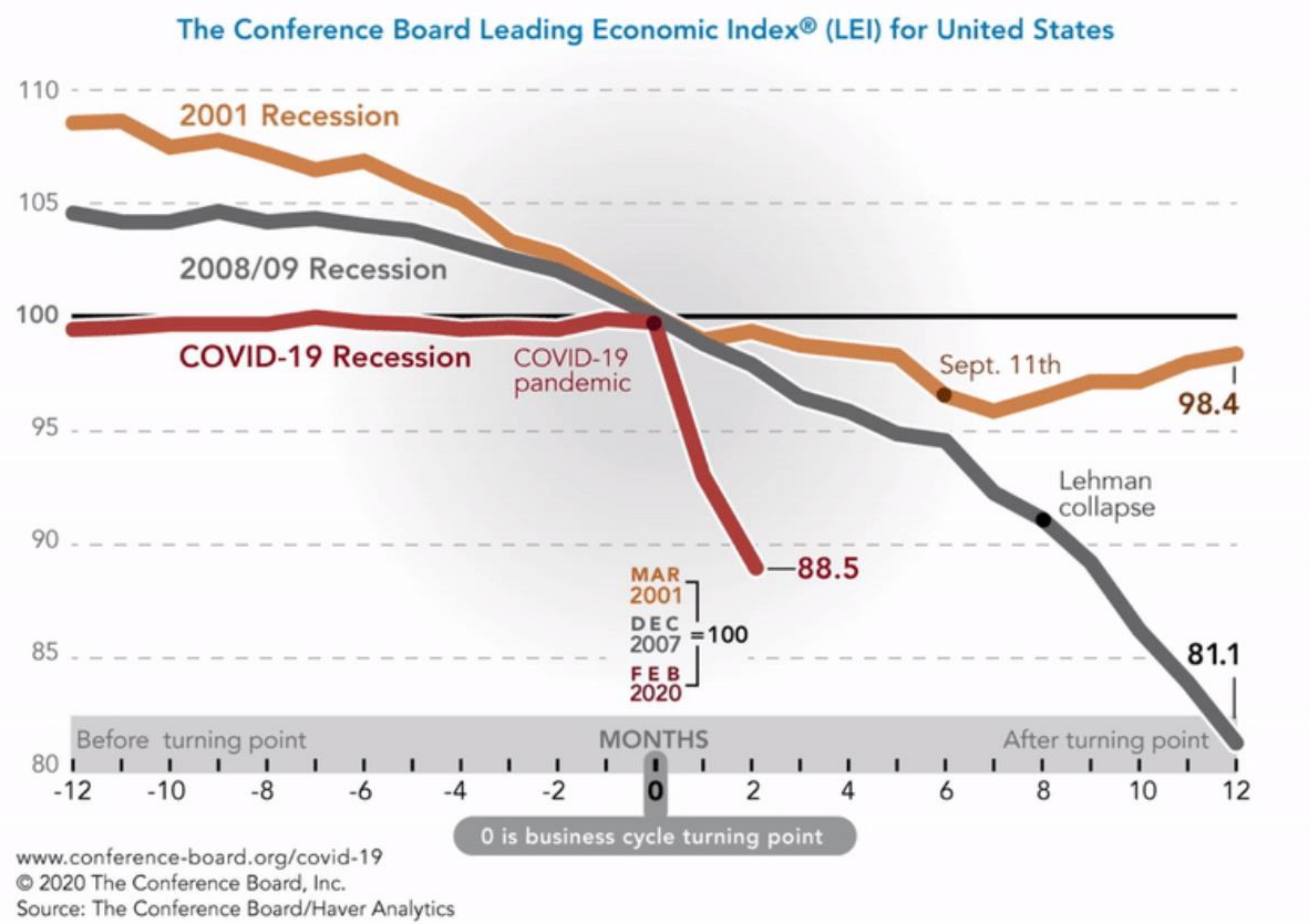
RCLCO REAL ESTATE ADVISORS

https://www.conference-board.org/topics/natural-disasters-pandemics

COVID-19 & CONSUMER CONFIDENCE

Updated: June 2, 2020, The Conference Board

- The Leading Economic Indicator (LEI) points to a potentially deep recession with no sign of a fast rebound
  - The underlying components of the index show spotty improvements in financial markets in April.
  - However, the widespread damage to labor markets and industrial activity suggests the imminent reopening of some sectors won't be enough to generate a fast rebound for the economy at large.



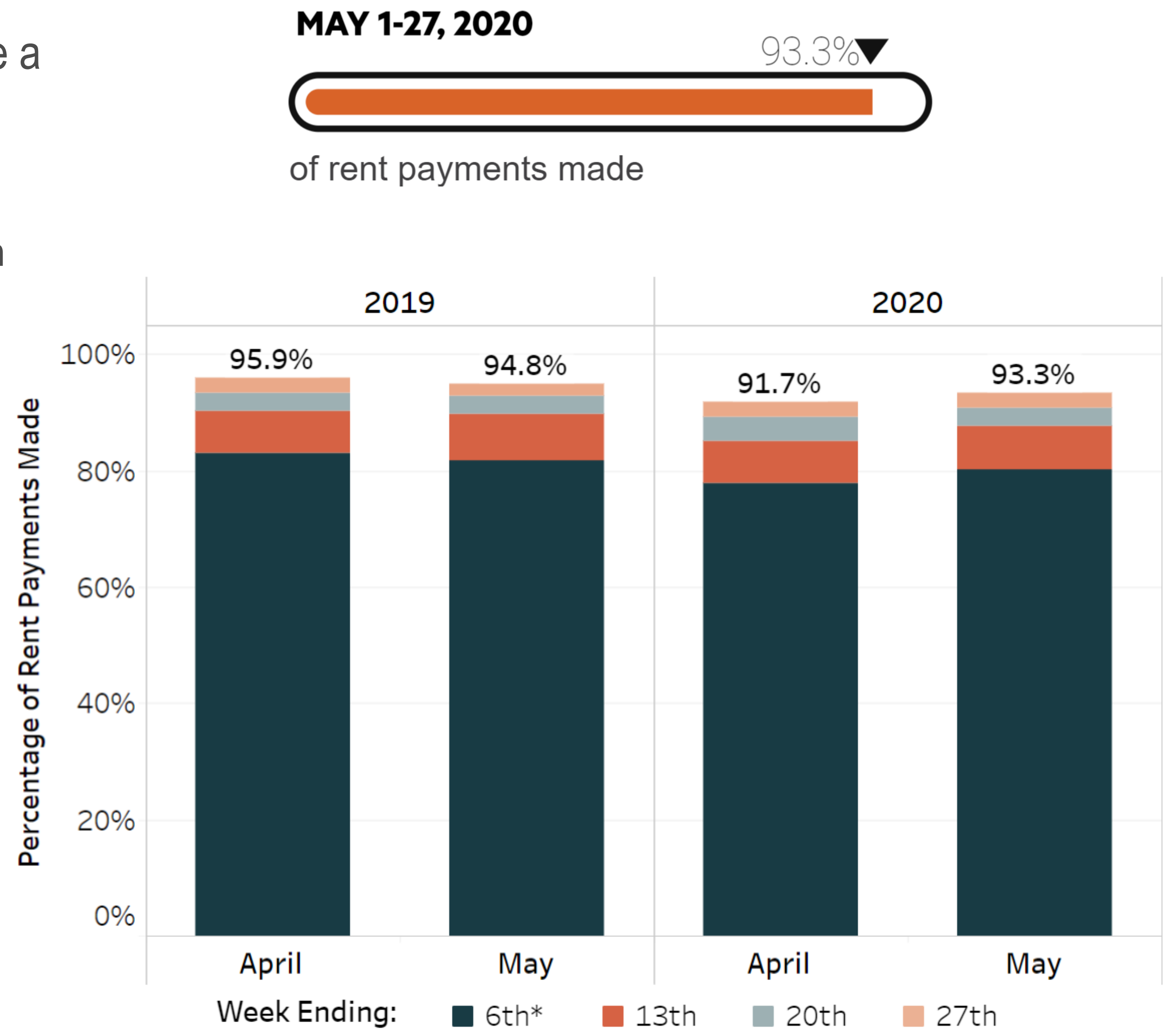
RCLCO REAL ESTATE ADVISORS

https://www.conference-board.org/topics/natural-disasters-pandemics

COVID-19 & MULTIFAMILY RENT COLLECTIONS

Updated: May 29, 2020, NMHC

- **93.3%** of professionally managed apartment households made a full or partial rent payment by May 27
  - This is up **-1.6%** from the same period in April 2020
  - This compares with **94.8%** of renters made payments from this same period in 2019



https://www.nmhc.org/research-insight/nmhc-rent-payment-tracker/

RCLCO REAL ESTATE ADVISORS

COVID-19 & NEW HOME SALES

Updated: May 26, 2020, U.S. Census & HUD

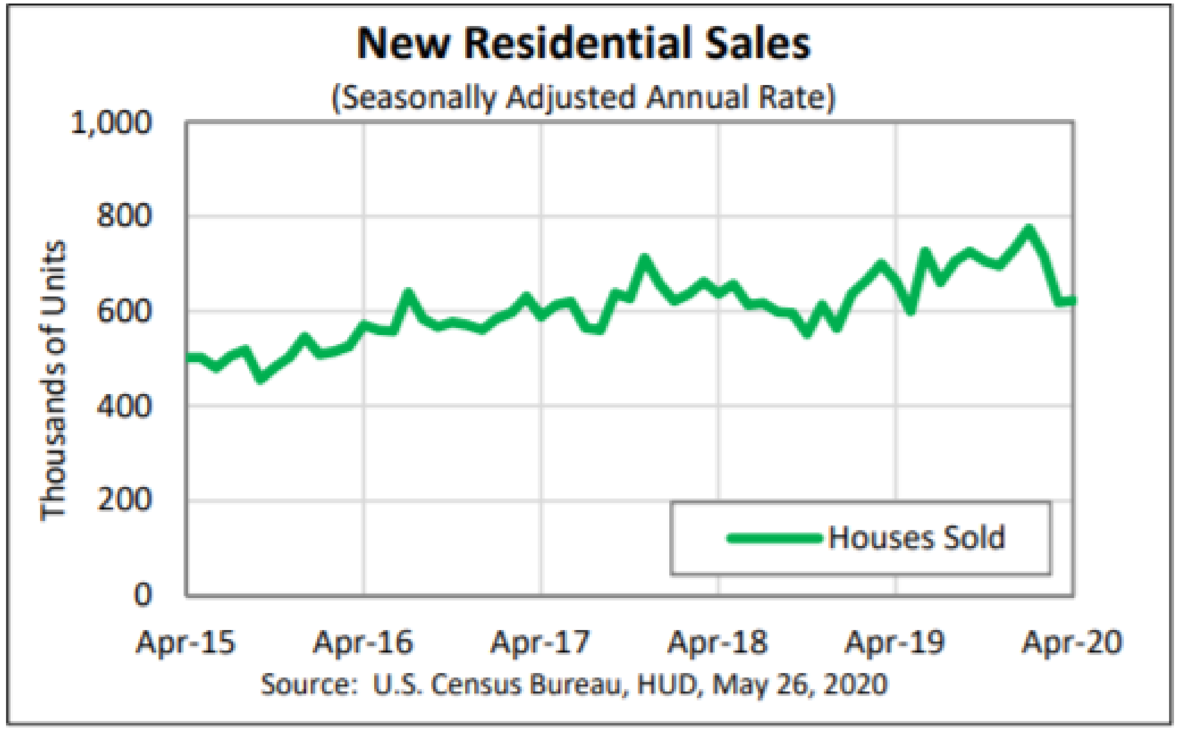
- **New Home Sales** – sales of new single-family houses in April 2020 were at a seasonally adjusted annual rate of 623,000, up +0.6%* above the revised March rate of 619,000; however, this is -6.2%** below the April 2019 estimate of 664,000
- **Sales Price** - the median sales price of new houses sold in April 2020 was $309,900. The average sales price was $364,500.
- **For Sale Inventory and Months' Supply** - seasonally-adjusted estimate of new houses for sale at the end of April was 325,000. This represents a supply of 6.3 months at the current sales rate.

NEW RESIDENTIAL SALES APRIL 2020

New Houses Sold[1]:	623,000
New Houses For Sale[2]:	325,000
Median Sales Price:	$309,900

Next Release: June 23, 2020

[1]Seasonally Adjusted Annual Rates
[2]Seasonally Adjusted
Source: U.S. Census Bureau, HUD, May 26, 2020



Margin of error: * (±14.9%); ** (±17.1%)

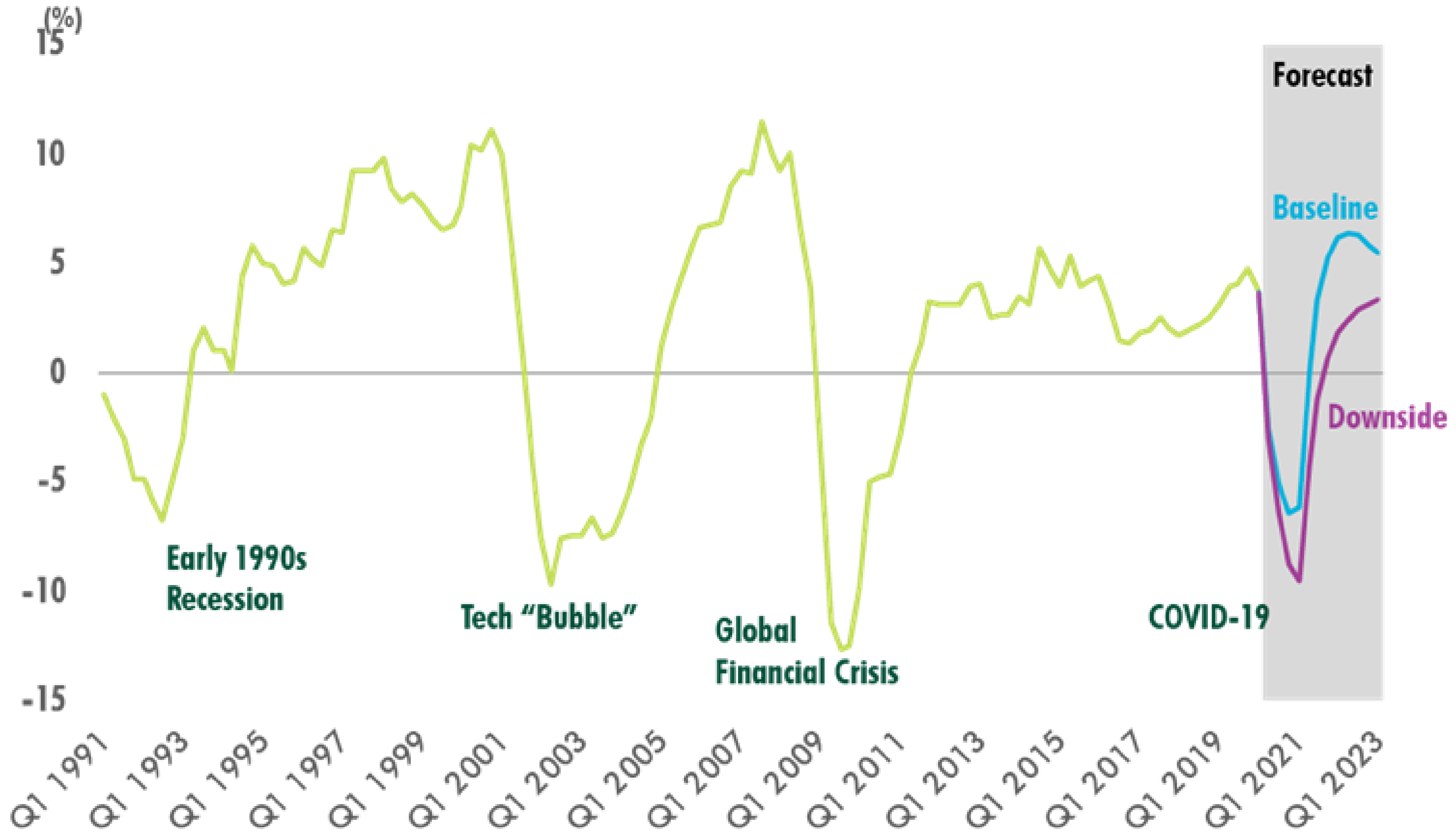
https://www.census.gov/construction/nrs/pdf/newressales.pdf

COVID-19 & OFFICE

Update: June 4, 2020, CBRE

- CBRE has two potential scenarios for office rent growth—the worst of which forecasts a downturn that is not significantly greater than any other since 1990
- However, they contend that trends support a less severe scenario.
  - Office-using industries have been less vulnerable to COVID-19-related job losses due to remote working.
  - Though further office-using job losses are expected in Q2, they should be less than those of other more vulnerable employment sectors like hospitality and retail.
  - Most occupiers are evaluating their current and future space needs to support both an increasingly remote workforce and less office density for health and safety reasons.

Figure 1: U.S. Office Rent Growth Forecast



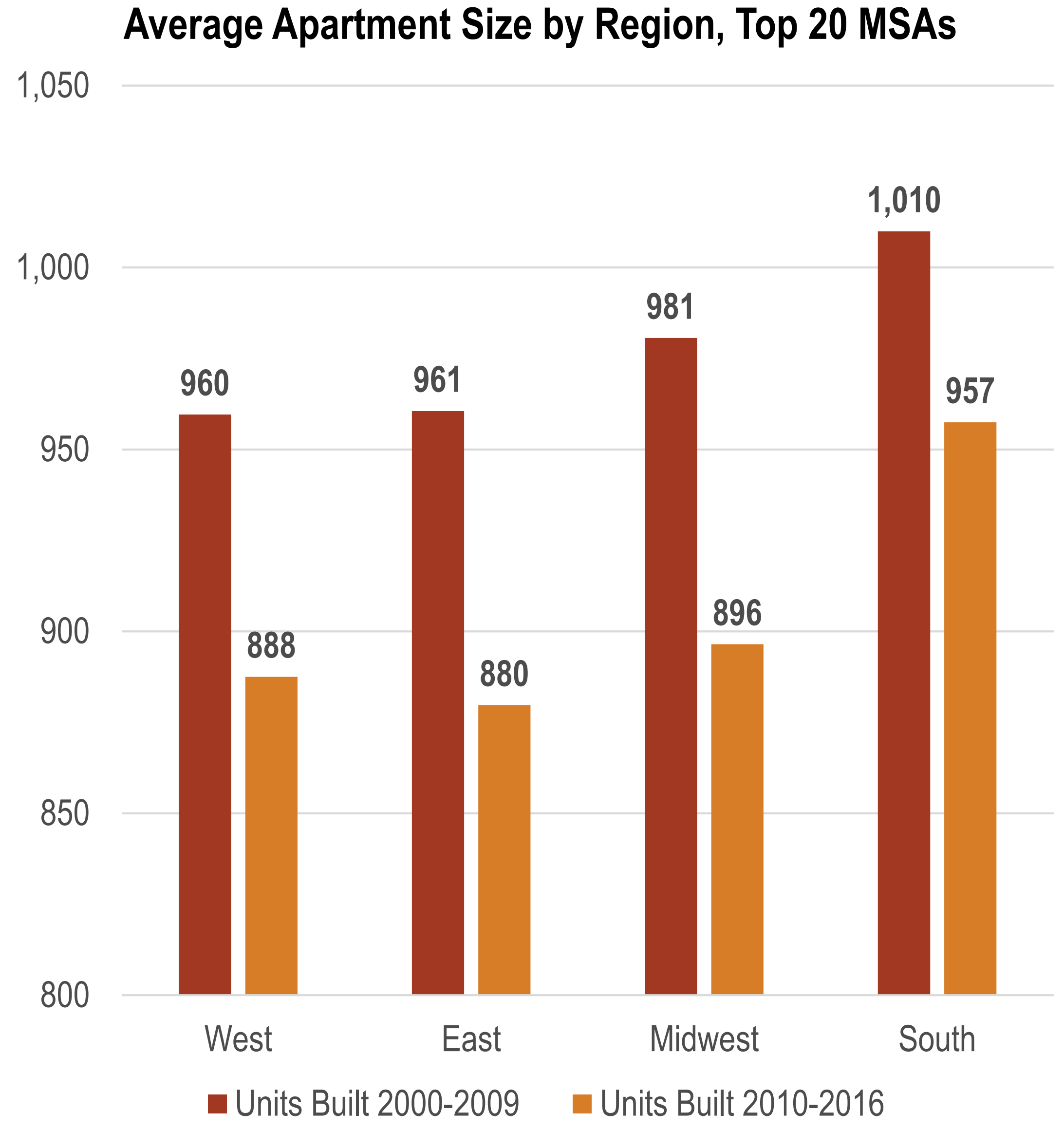
Source: CBRE Econometric Advisors, Q2 2020.

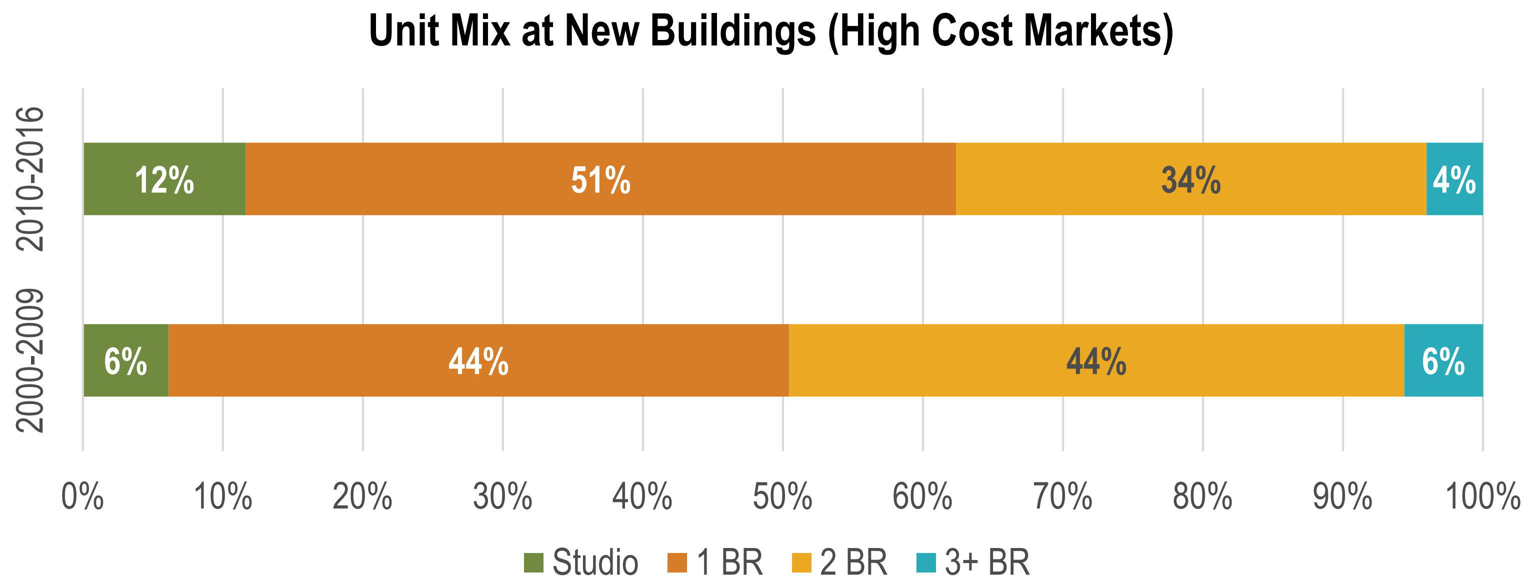
RCLCO REAL ESTATE ADVISORS

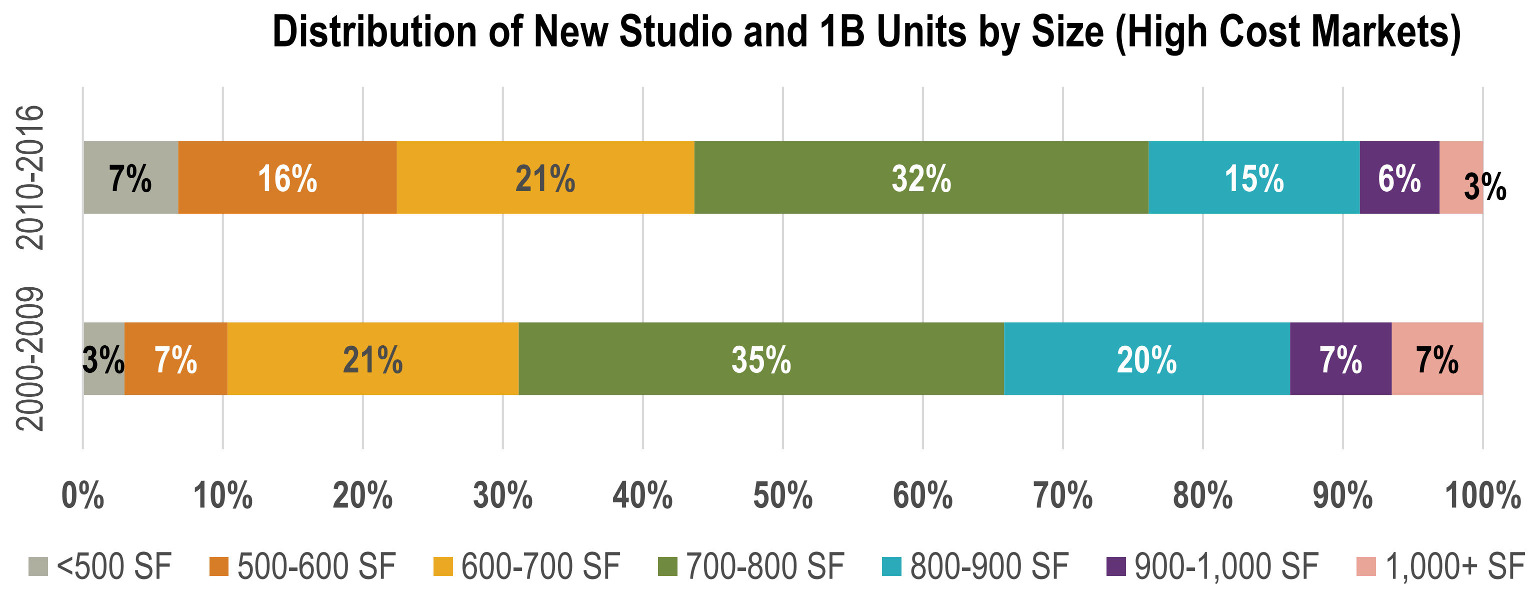
MYTH:
IS THE SMALL APARTMENT DEAD?

RCLCO
REAL ESTATE ADVISORS

MYTH: THE SMALL (& CONSTANTLY SHRINKING) APARTMENT IS OVER



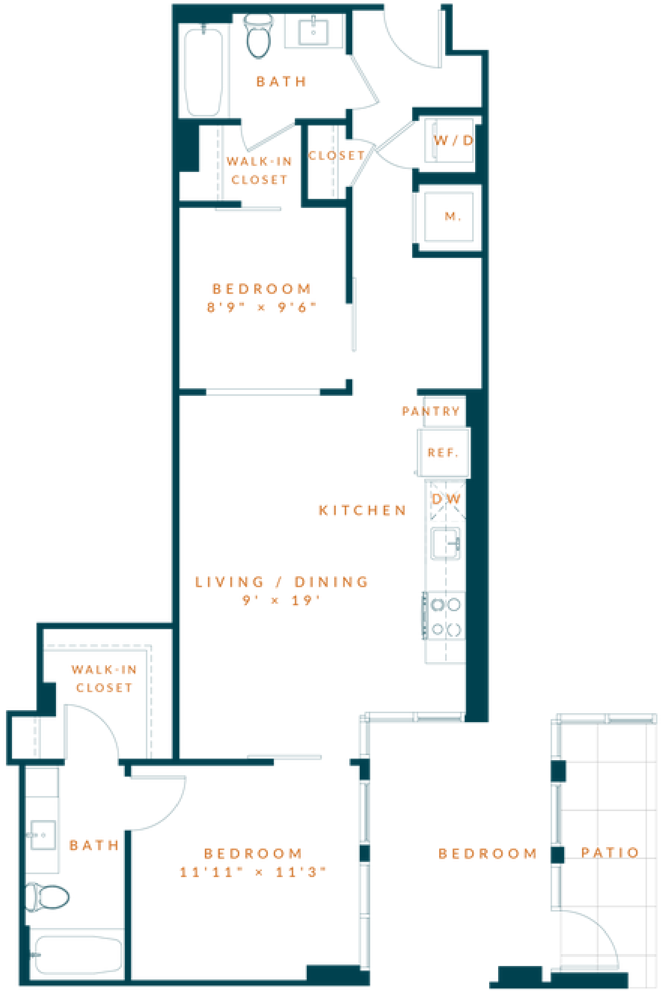




RCLCO
REAL ESTATE ADVISORS

MYTH: THE SMALL (& CONSTANTLY SHRINKING) APARTMENT IS OVER

894 SF



855 SF

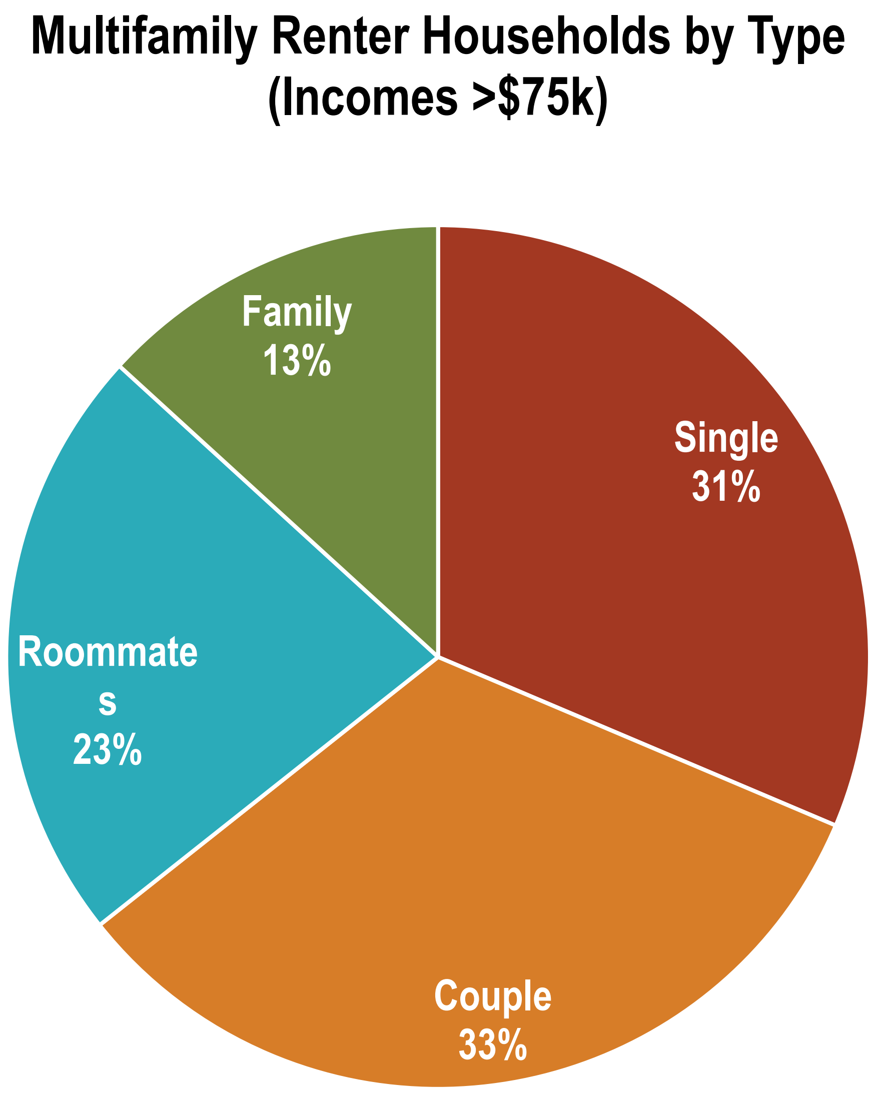
Studio apartment with a desk

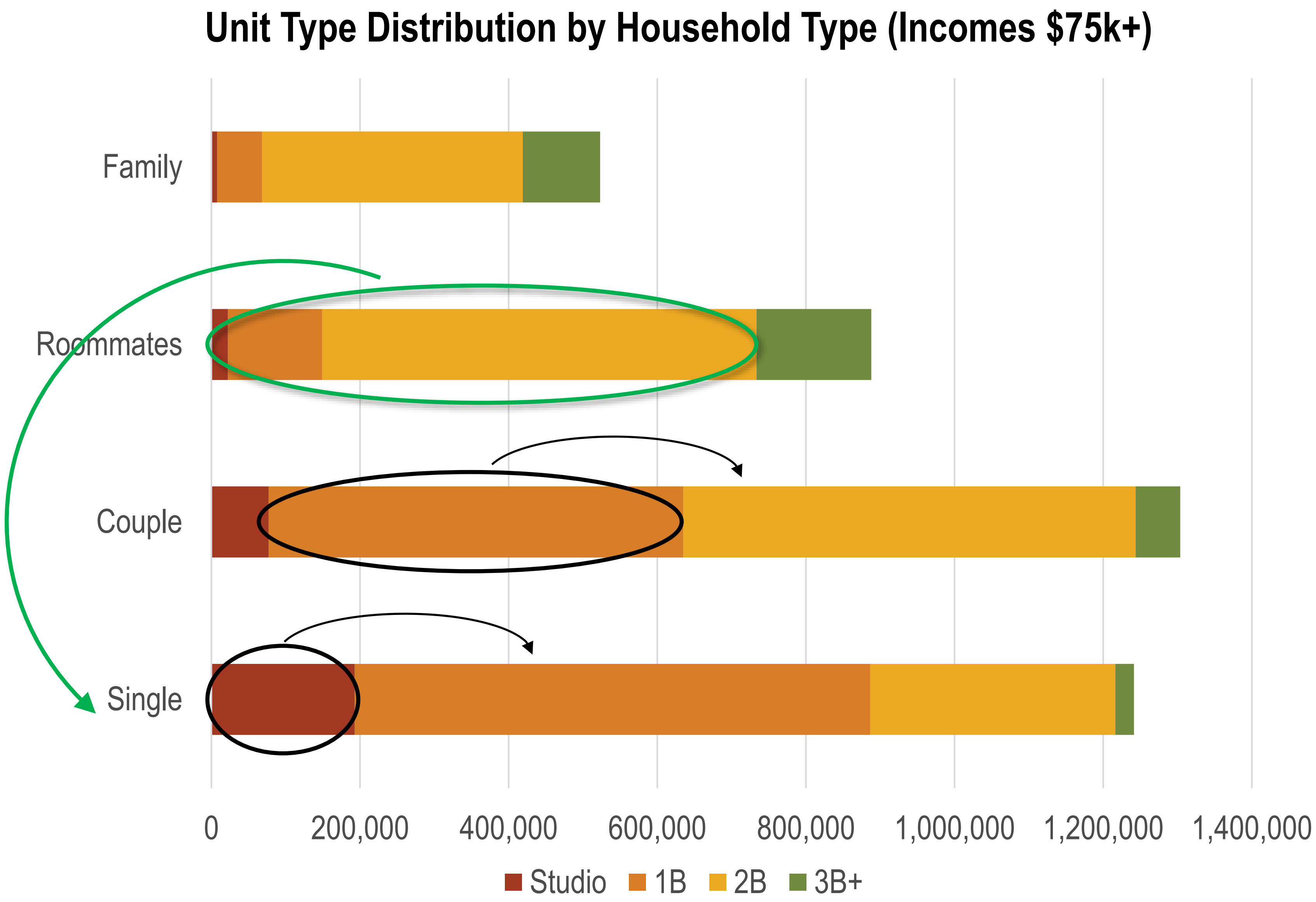
550 SF

Maybe its really about layout?

RCLCO
REAL ESTATE ADVISORS

MYTH: THE SMALL (& CONSTANTLY SHRINKING) APARTMENT IS OVER

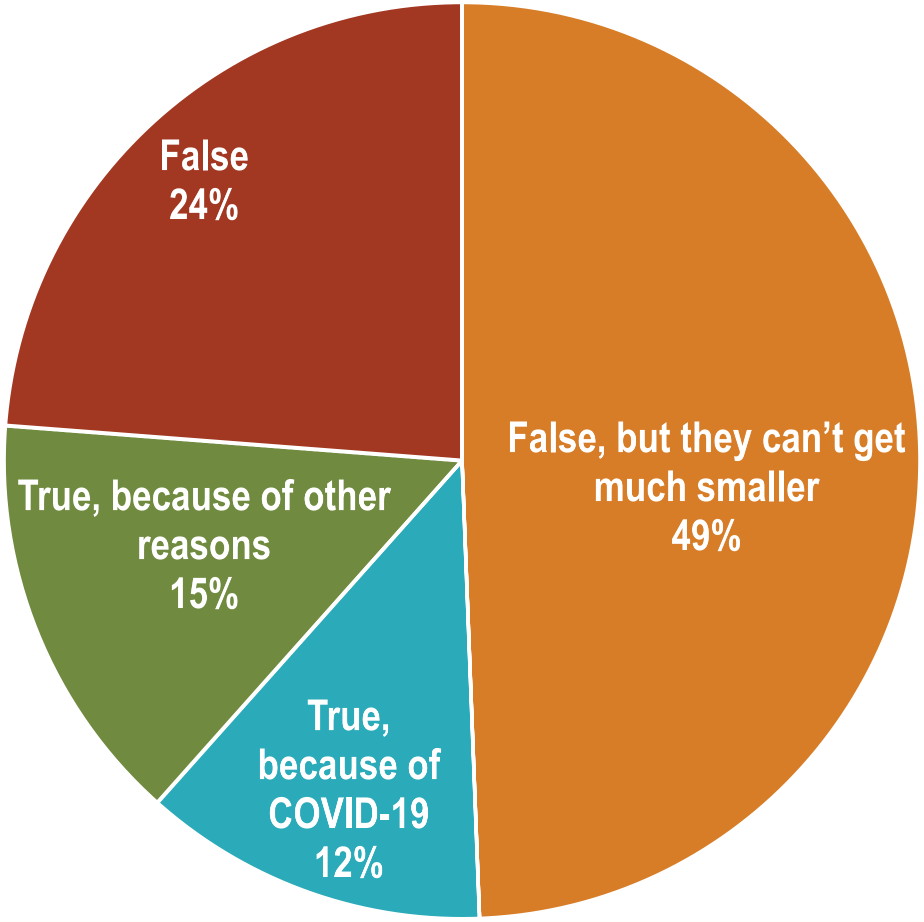




RCLCO
REAL ESTATE ADVISORS

POLL RESPONSES

Myth: Is the shrinking apartment trend over?



RCLCO
REAL ESTATE ADVISORS

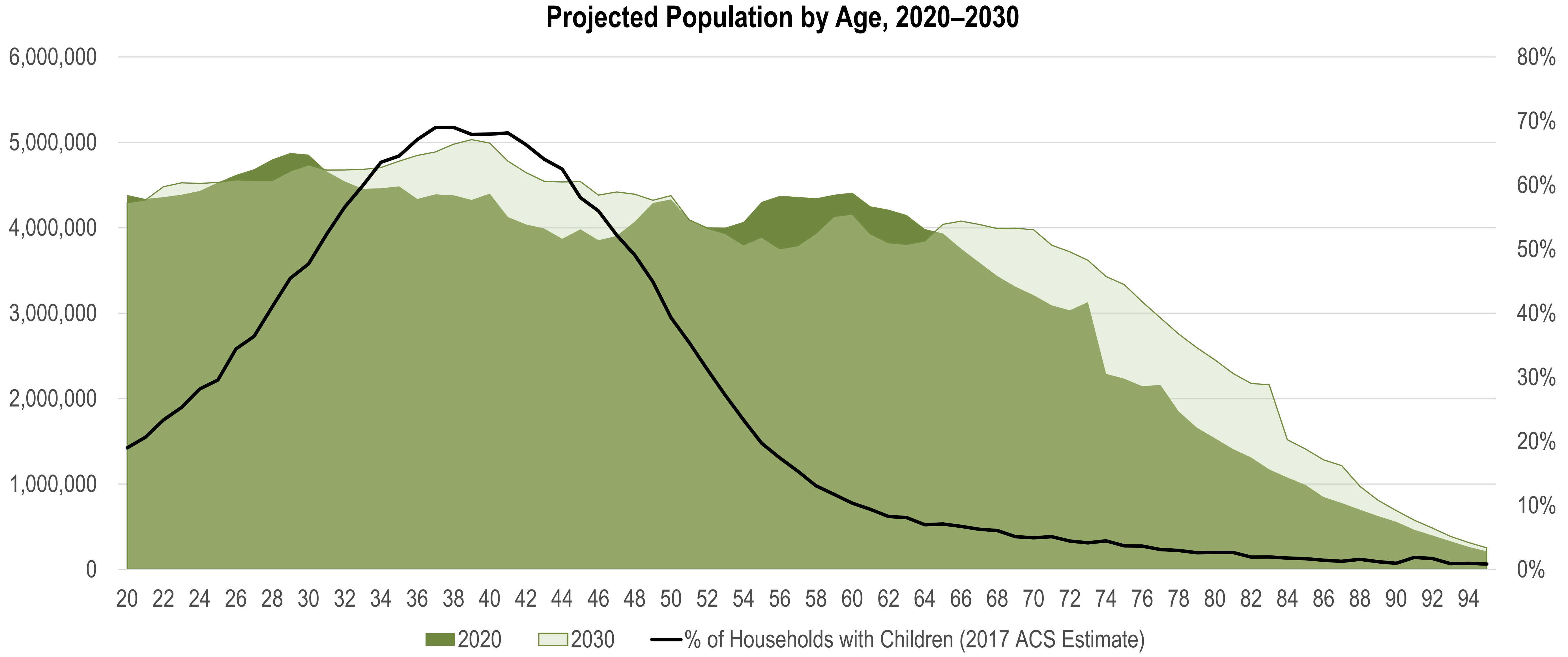
MYTH:
PEOPLE ARE FLEEING DENSITY BECAUSE OF PANDEMIC

RCLCO
REAL ESTATE ADVISORS

MYTH: PEOPLE ARE FLEEING DENSITY DUE TO PANDEMIC

- Changes in behavior are the most difficult to predict
- Demographics are driving much of the trend, not COVID-19
- COVID-19 is accelerating moves that were already under way for the past two to three years
- Interest rates, in addition to demographics, are facilitating the acceleration

MYTH: PEOPLE ARE FLEEING DENSITY DUE TO COVID-19



RCLCO REAL ESTATE ADVISORS

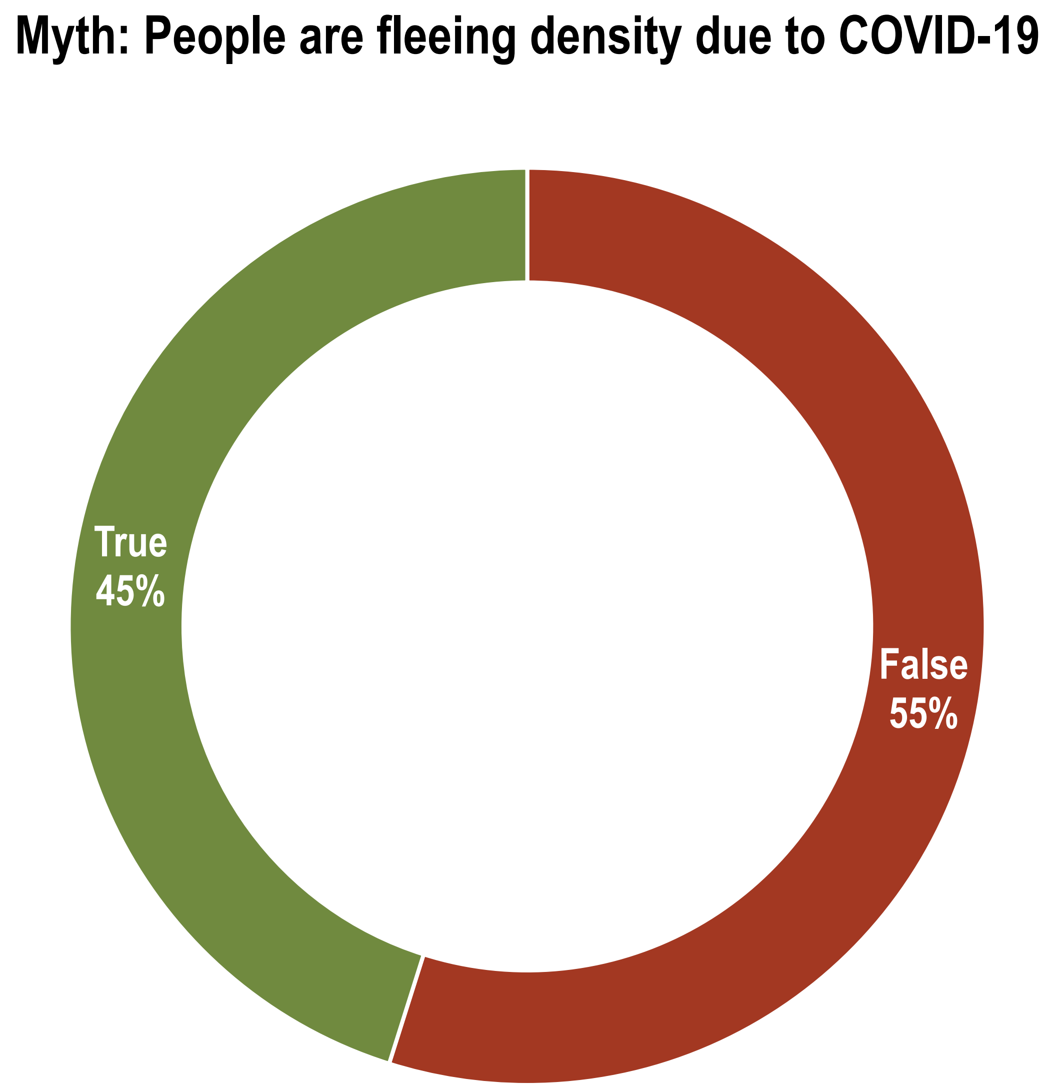
Source: United States Census Bureau; 2017 National Population Projections Tables; American Community Survey 1-Year Estimates

MYTH: PEOPLE ARE FLEEING DENSITY DUE TO COVID-19

- Many are using low interest rates to “trade up” on housing, not necessarily flee density
- Pandemic is accelerating moves that people were already planning to make (to suburbs, rural areas, or relocations)
- Seeking more space or better space to accommodate working from home is related to functionality, not density
- More functional space to accommodate home working might mean moving further out
- Lack of need to be in the office frequently allowing for commute sensitive households to locate elsewhere (even across state/country lines)
- People still want conveniences, regardless of location

RCLCO
REAL ESTATE ADVISORS

POLL RESPONSES



MYTH:
OFFICE USERS WILL DEMAND LESS SPACE BECAUSE MORE EMPLOYEES WILL WFH

RCLCO
REAL ESTATE ADVISORS

MYTH: AS A RESULT OF MORE WFH, OFFICE USERS WILL DECREASE THEIR OVERALL FOOTPRINTS

- Square footage per employee has declined for years
- Denser offices do not allow for a safe and well-distanced work environment in the post-COVID-19 era
- As a result, employers will allow, or even encourage, full- or part-time WFH, thus de-densifying offices
- Result is a lower daily employee occupancy
- Lower utilization and potential cost savings will lead employers to decrease their footprint

RCLCO
REAL ESTATE ADVISORS

MYTH: AS A RESULT OF MORE WFH, OFFICE USERS WILL DECREASE THEIR OVERALL FOOTPRINTS

Employees will want to come into the office

- WFH employees are reporting more distractions, less productivity and less job satisfaction.
- People crave personal interaction.

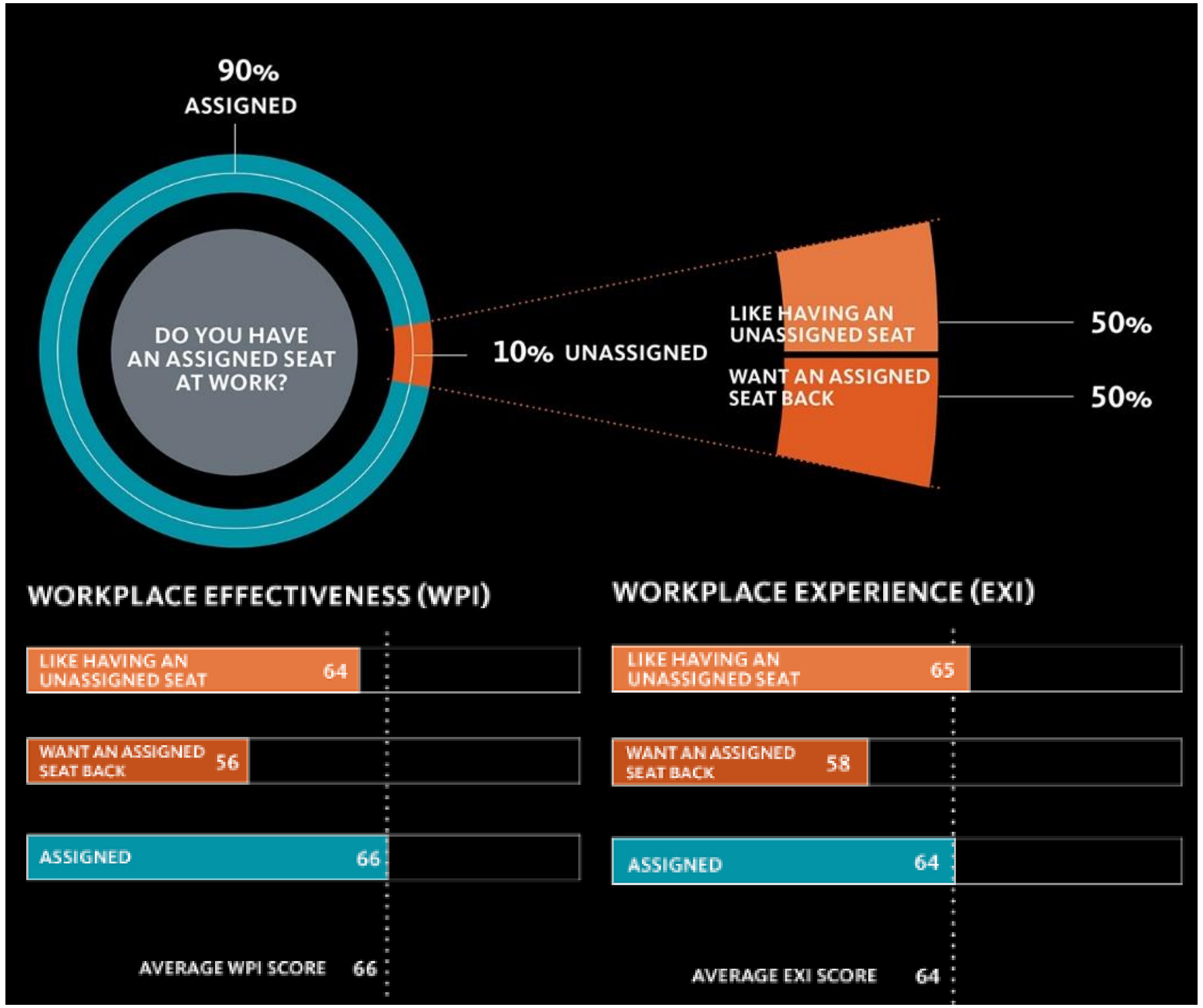
Employers will want them to come into the office

- Employees have reported a noticeable decrease om organic collaboration.
- Office aren't just for getting work done, they help build company culture.
- Virtual training/on-boarding is harder than WFH.

When employees come in, they will need someplace to go

- Early feedback from "hoteling" or "hot-desking" suggests that it is only moderately embraced and less efficient, across the board
- Given COVID uncertainty, employees will be hesitant to share a workspace with their colleagues

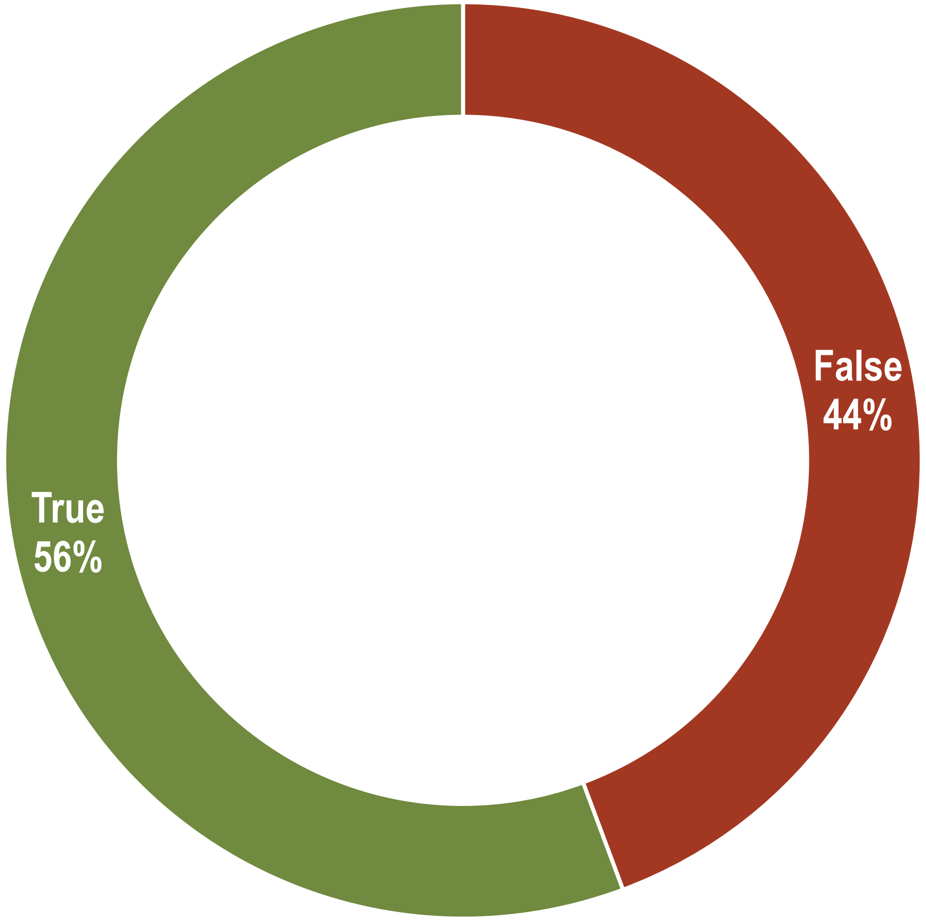
Results of the Gensler U.S. Workplace Survey 2020



RCLCO REAL ESTATE ADVISORS

POLL RESPONSES

Myth: As a result of more WFH, office users will decrease their overall footprints

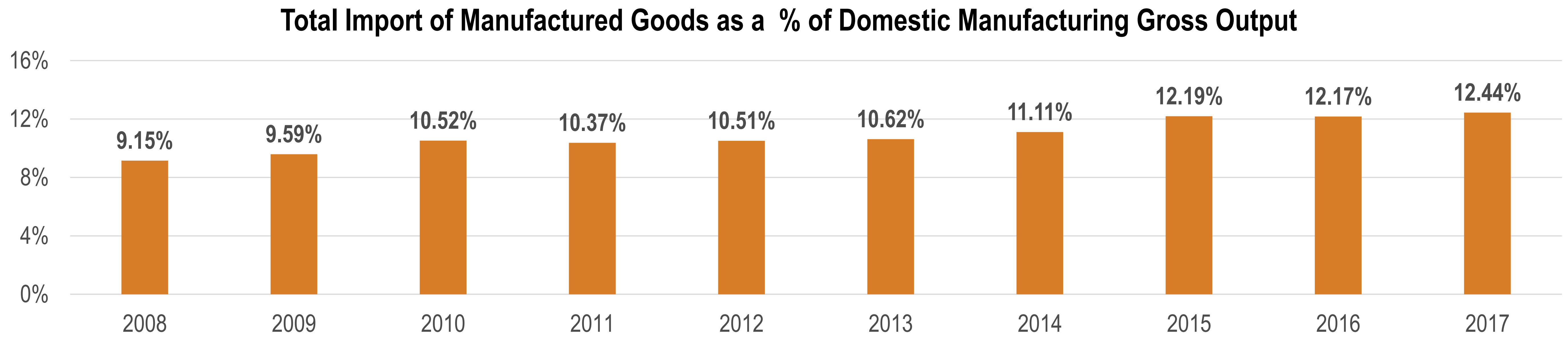


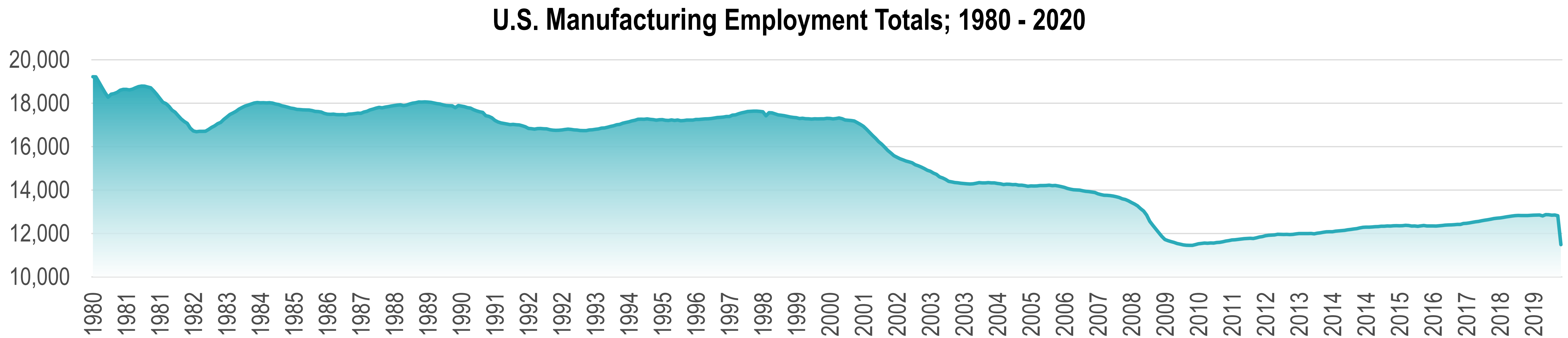
RCLCO
REAL ESTATE ADVISORS

MYTH:
MANUFACTURING WILL RETURN TO THE U.S.

RCLCO REAL ESTATE ADVISORS

MYTH: MANUFACTURING WILL RETURN TO THE U.S.



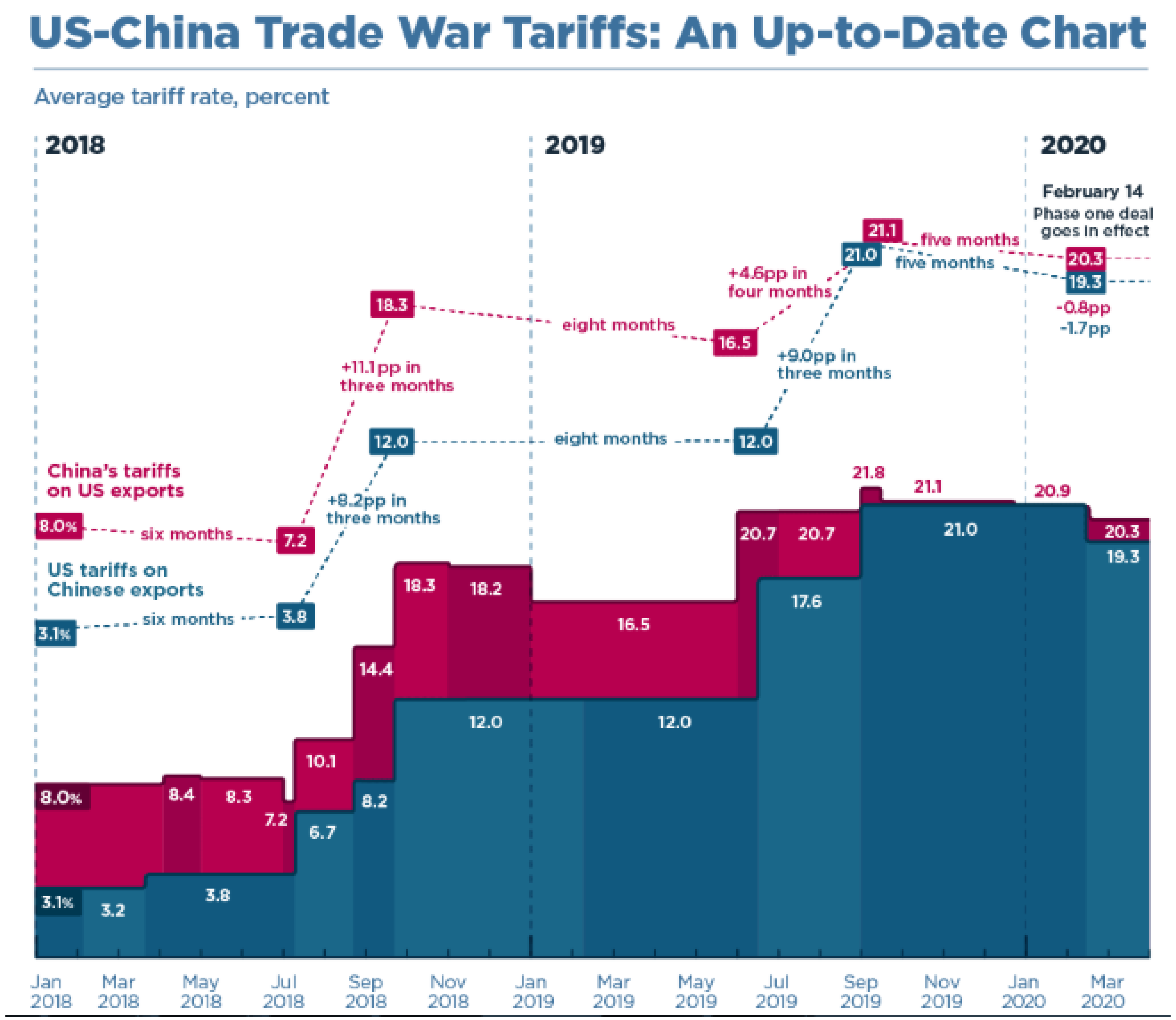


Source: US International Trade Commission, FRED

MYTH: MANUFACTURING WILL RETURN TO THE U.S.

Myth: As a result of COVID-related supply chain issues and mounting political and economic tension with China, many U.S. companies will begin manufacturing locally again.

- COVID-related lapses in the supply chain have left many U.S. companies without intermediate goods and final inventory, leading many to believe that the U.S. is overly dependent of foreign labor for the production of goods
- Political and economic tensions with China, the location of the majority of the offshored factories from U.S. companies, have resulted in tariffs, which subsequently increase the cost of imported goods
- The result is that many believe that U.S. companies will begin to onshore their factories, giving them more control over the supply-chain while avoiding the tariffs and stigmas surrounding economic engagement with China



Source: Peterson Institute for International Economics

MYTH: MANUFACTURING WILL RETURN TO THE U.S. – BUSTED!

Cost of Labor

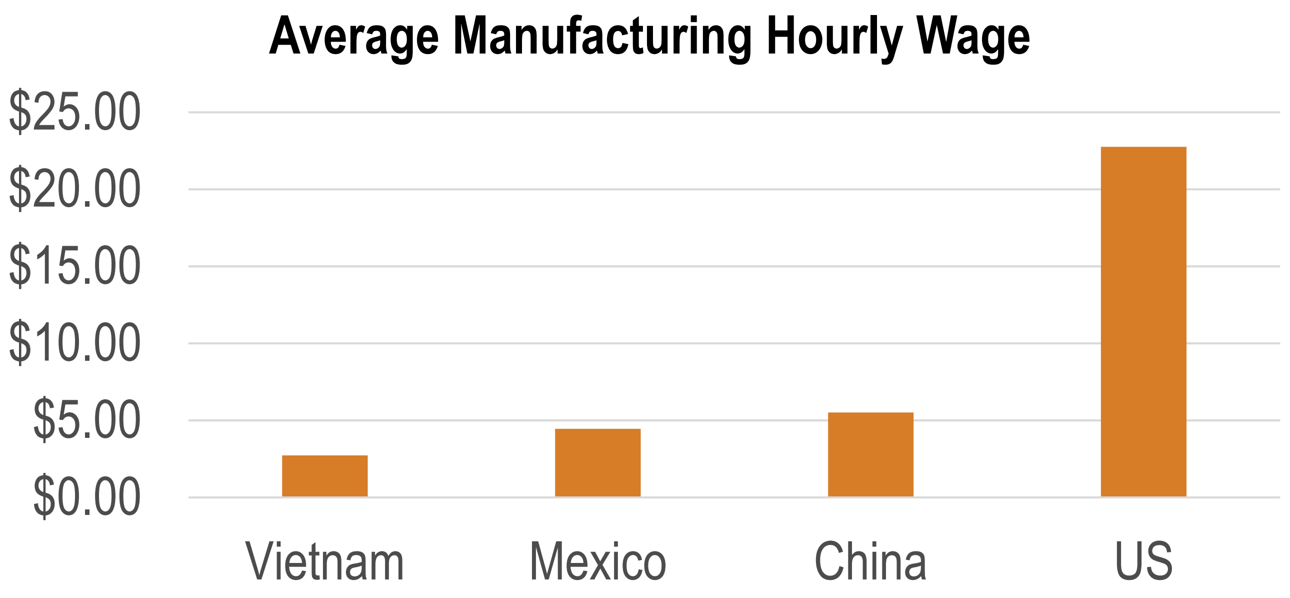
- Offshoring factories to countries like China and Vietnam results in a lower cost of labor than what is available in the U.S.
- A dramatic increase in labor costs would threaten profit margins and viability, which is certain to occur if they relocate their factories to the U.S.

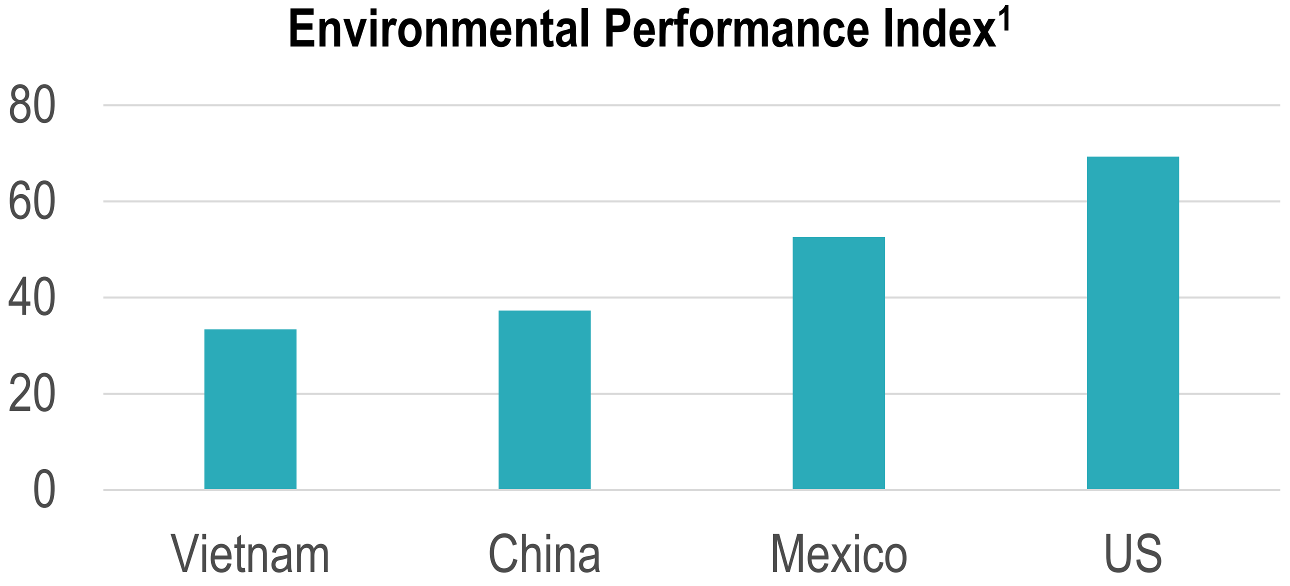
Regulatory environment

- The U.S. has a far more stringent regulatory environment, which results in additional costs to meet energy, environmental, transportation, labor, health, etc.
- These additional costs will likely incentivize companies to exercise patience, and diversify their supply chain elsewhere overseas, as opposed to returning to the U.S.

Infrastructure/Supply Chain

- The offshored factories of U.S. companies, where they exists today, benefit from the existing infrastructure and economies of scale



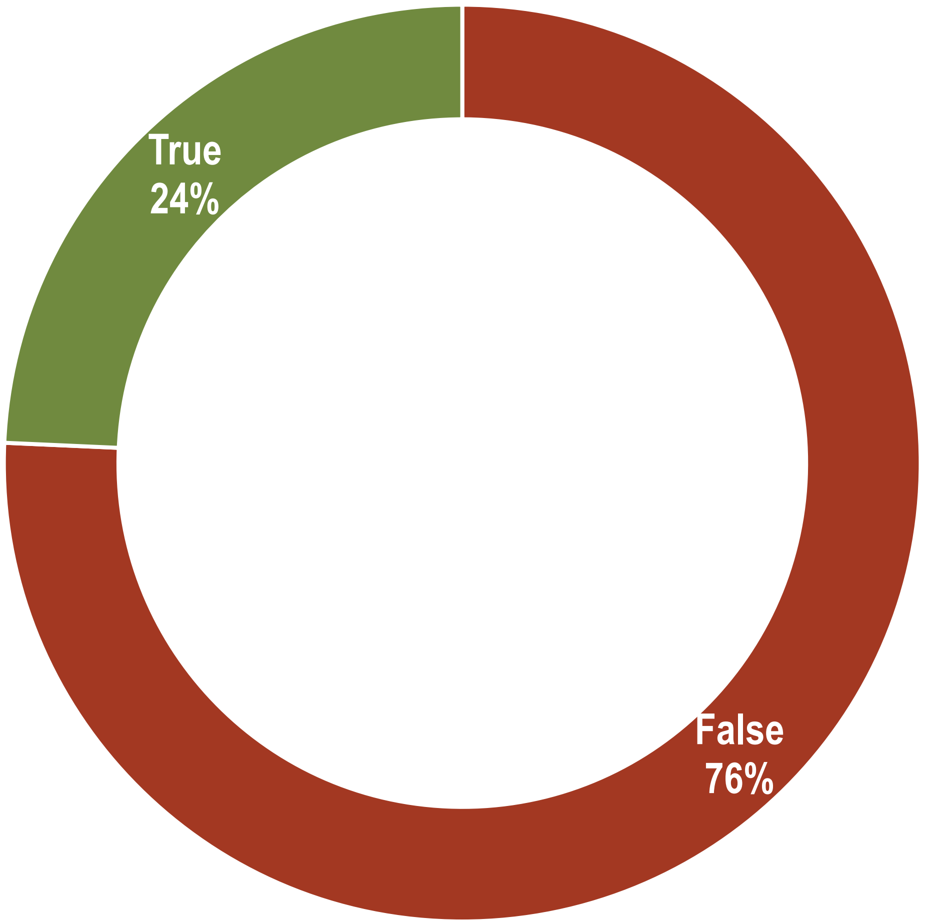


RCLCO REAL ESTATE ADVISORS

Source: Conference Board, Statista, BLS, Yale Center for Environmental Law & Policy

1 The 2020 EPI provides a quantitative basis for comparing, analyzing, and understanding environmental performance for 180 countries.

POLL RESPONSES



RCLCO
REAL ESTATE ADVISORS

MYTH:
RESIDENTIAL SALES AND MARKETING WILL RETURN TO PRE-COVID CRISIS PRACTICES

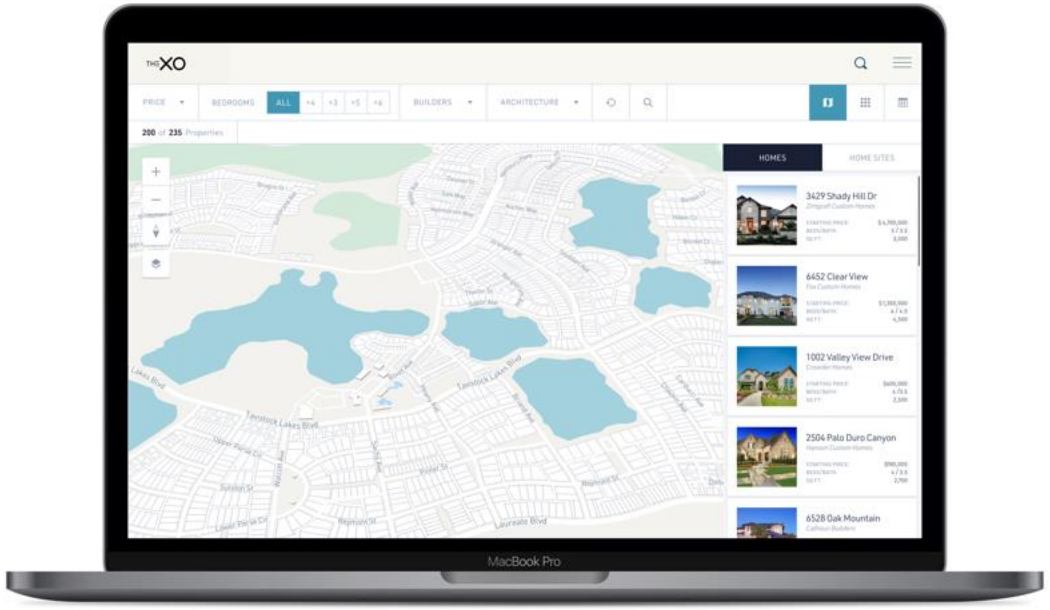
RCLCO
REAL ESTATE ADVISORS

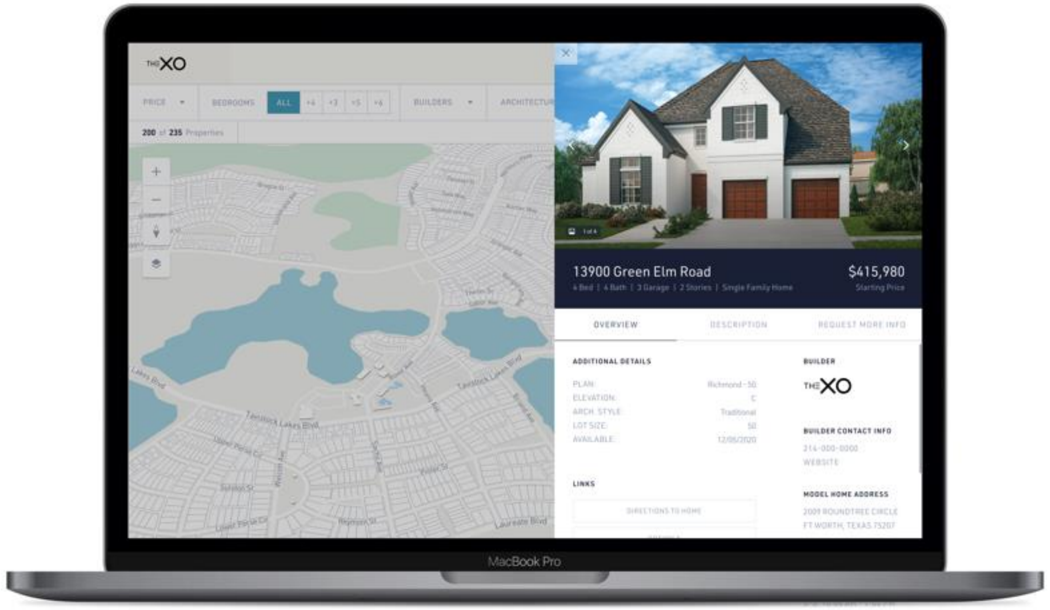
MYTH: RESIDENTIAL SALES AND MARKETING WILL RETURN TO PRE-COVID CRISIS PRACTICES

- The technology transformations to MPC sales, marketing, and management preceded the current crisis, but are being greatly accelerated by it
- Those who do not adapt will likely find themselves at a competitive disadvantage
- Widely available before the COVID-19 crisis, many organizations continue with old tech fearing customers won’t adapt, concerns about investing in the wrong technology platform etc.
- Builders and developers may fall behind in this housing recovery if they do not embrace virtual technology and other online tools
- Current crisis created more urgency around a pre-existing problem: improving the consumer home-buying experience

MYTH: RESIDENTIAL SALES AND MARKETING WILL RETURN TO PRE-COVID CRISIS PRACTICES

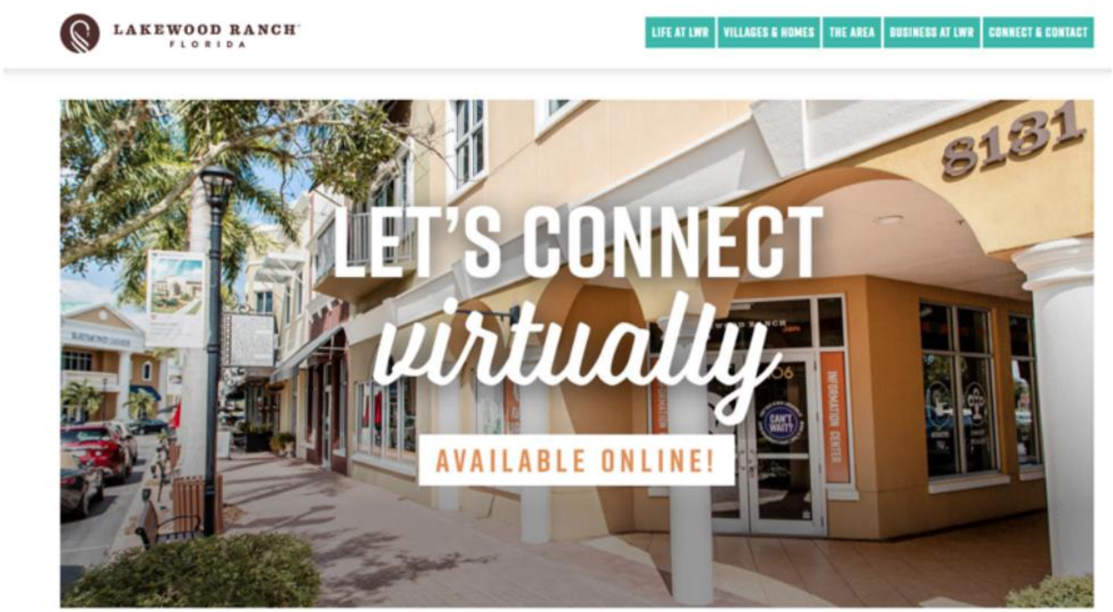
- Matterport virtual tours allow the user to do a 3D walkthrough on their device, as well as experience the floorplan in full VR
- Top selling communities are utilizing interactive web page maps that allow the consumer to explore different floor plans and elevations on particular lots from the comfort of their home
- By the time they talk to a salesperson, they are more than 70% through the evaluation process before ever stepping foot in a model home

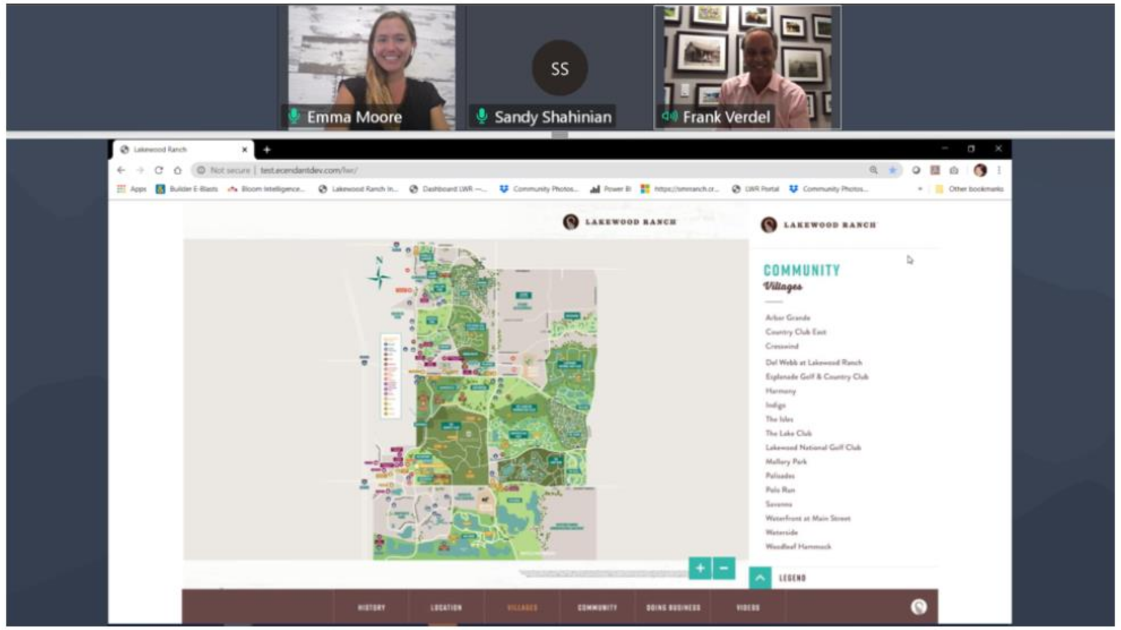




MYTH: RESIDENTIAL SALES AND MARKETING WILL RETURN TO PRE-COVID CRISIS PRACTICES

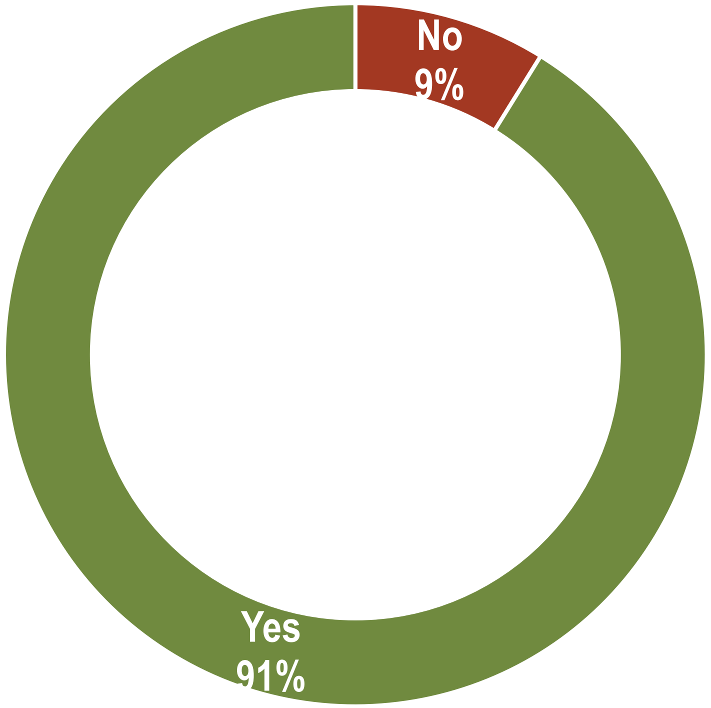
- Cecilian Partners real estate software platform for community developers – The XO
- Simplifies management of community development information to both enable a better home-buying experience
- Wide range of technology responses across the real estate industry
- Darwin did not say it would be the most intellectual or the strongest that survives, but the ones that are best able to adapt and adjust to the changing environment



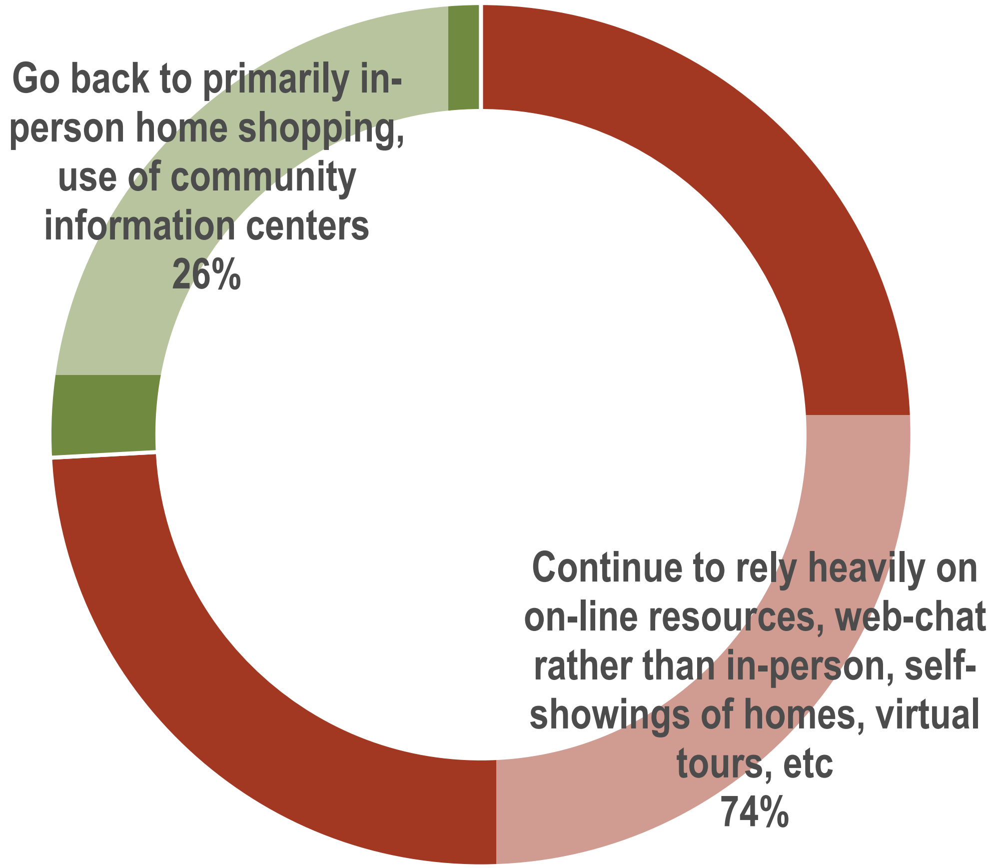


POLL RESPONSES

Do you believe builders and developers will fall behind in this housing recovery if they do not embrace virtual technology and other online tools that facilitate the consumer's ability to research and purchase from afar?



Do you believe residential sales and marketing after the health crisis ends will…



RCLCO
REAL ESTATE ADVISORS

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

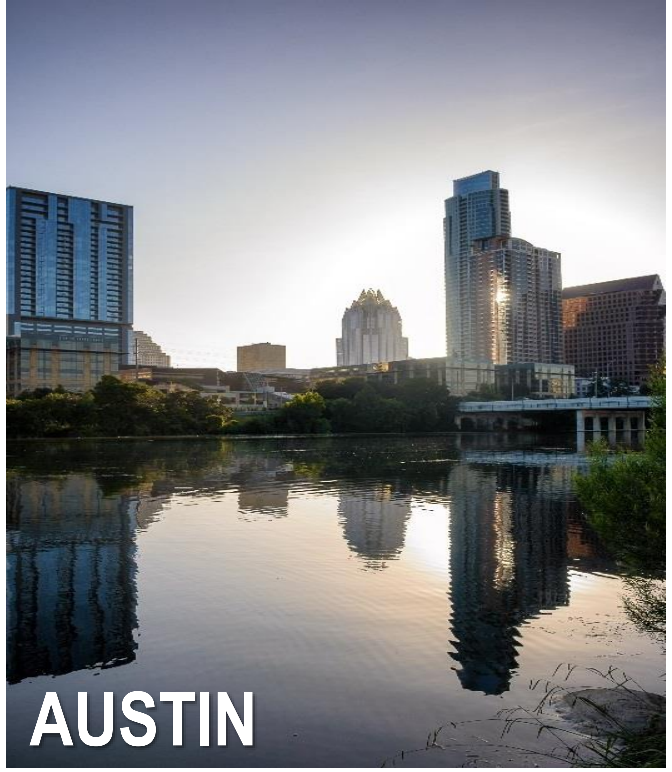
Should any of the above change, this analysis should be updated, with the conclusions reviewed accordingly (and possibly revised).

GENERAL LIMITING CONDITIONS

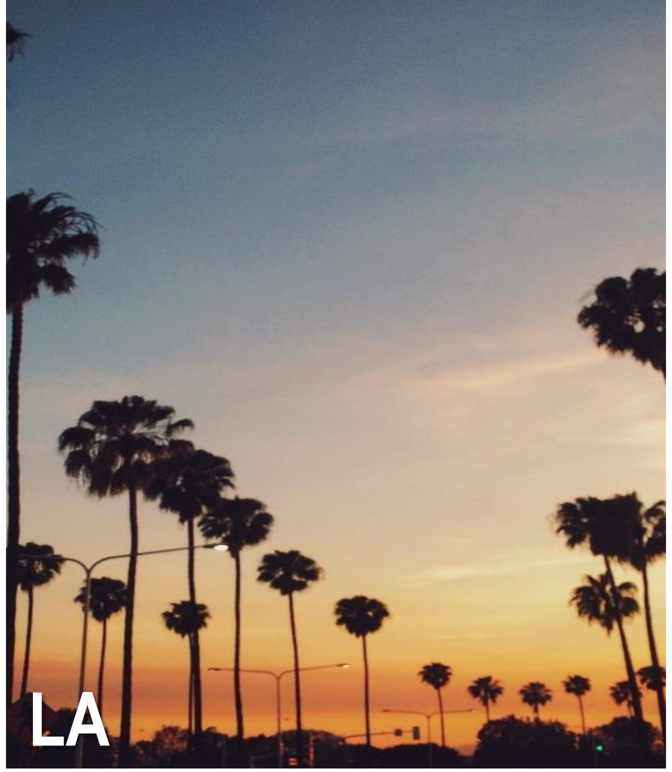
Reasonable efforts have been made to ensure that the data contained in this study reflect accurate and timely information and are believed to be reliable. This study is based on estimates, assumptions, and other information developed by RCLCO from its independent research effort, general knowledge of 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.

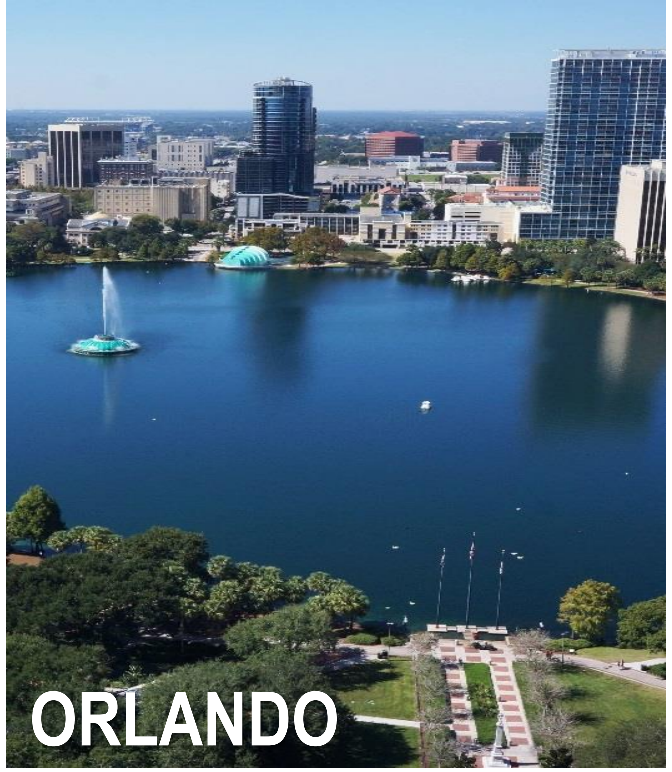
Possession of this study does not carry with it the right of publication thereof or to use the name of "Robert Charles Lesser & Co." or "RCLCO" in any manner without first obtaining the prior written consent of RCLCO. No abstracting, excerpting, or summarization of this study may be made without first 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.



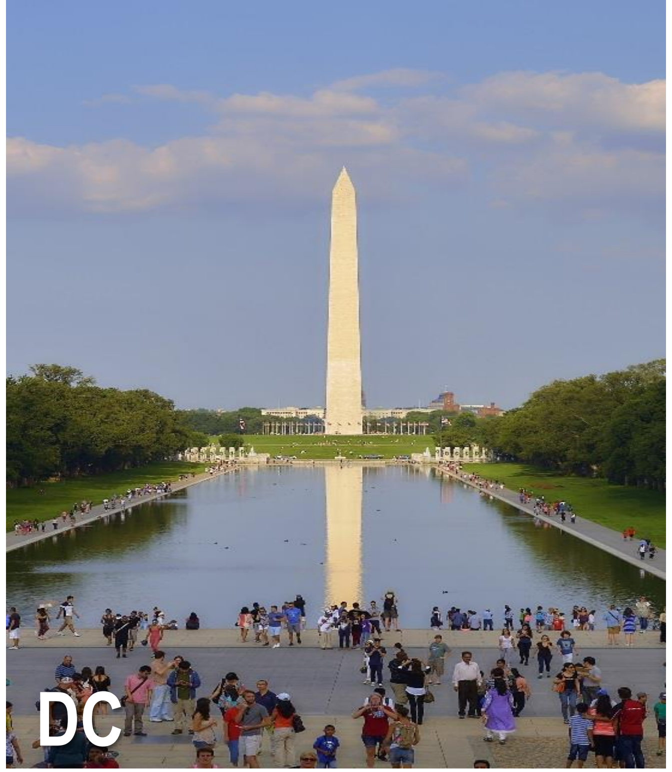
221 W 6th St
Suite 2030
Austin, TX 78701



11601 Wilshire Blvd
Suite 1650
Los Angeles, CA 90025



964 Lake Baldwin Ln
Suite 100
Orlando, FL 32814



7200 Wisconsin Ave
Suite 1110
Bethesda, MD 20814

RCLCO
REAL ESTATE ADVISORS

Joshua A. Boren
Director, Business Development
P: (310) 984-1757
E: jboren@rclco.com