FAMILY RENTAL HOUSING: A GROWING NEED AND EMERGING OPPORTUNITY

The Baltimore Story

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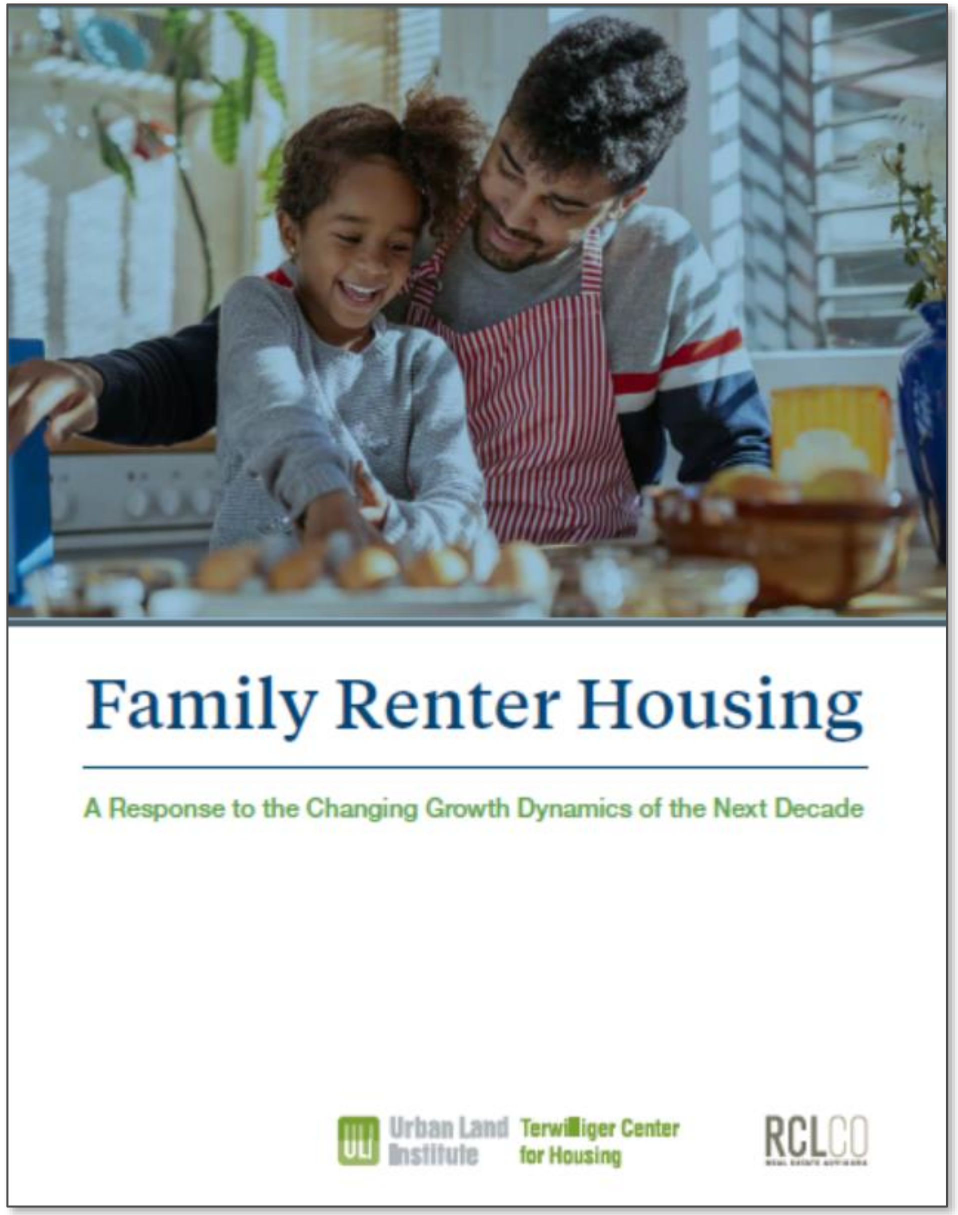
MAY, 2020 ULI TERWILLIGER CENTER PUBLICATION KEY FINDINGS

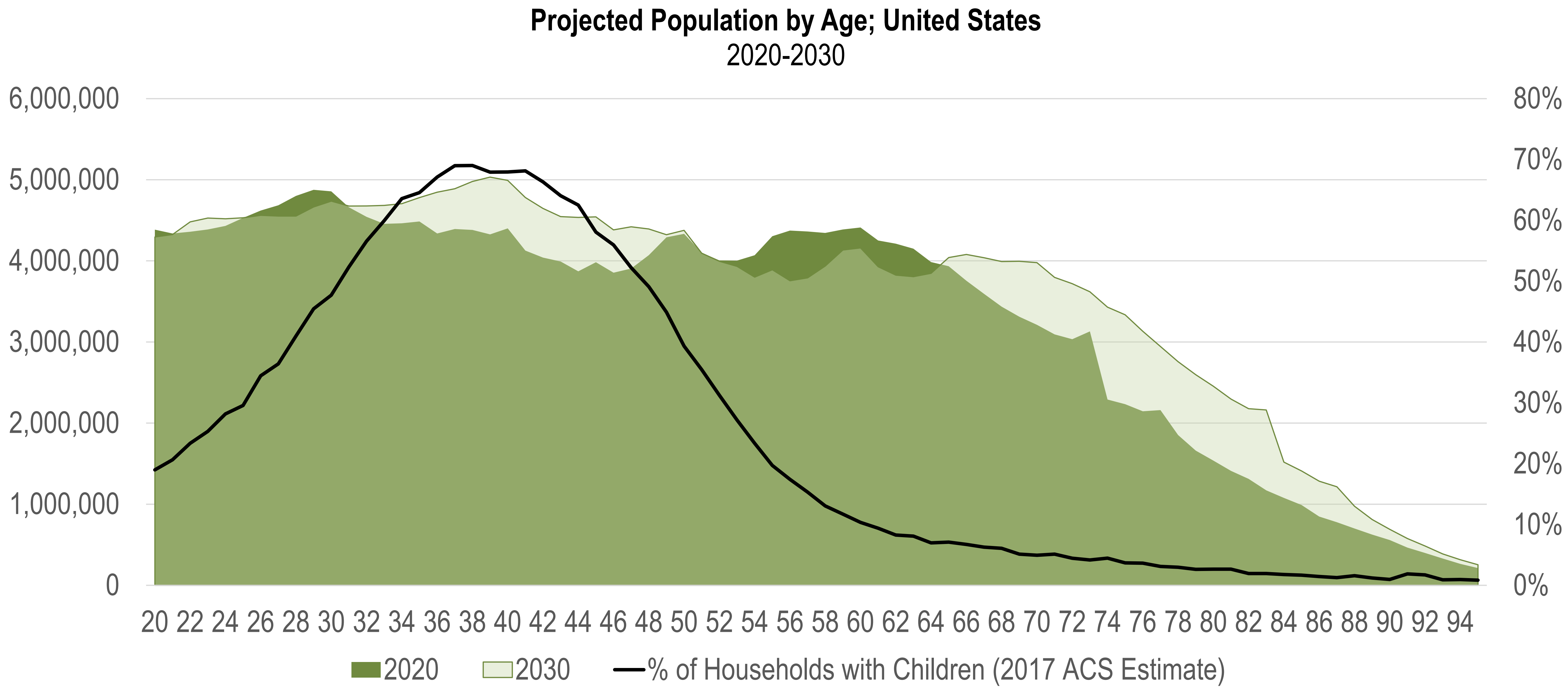


- 1/3 of American renter households are families – an incredibly diverse group defined here a homes with children under the age of 18
- Despite the broad change from ownership to renting, there was little growth in the number of household with children in the U.S. in the last decade and very little development targeted this cohort
- In the 2020s, as Millennials have children, family renter households will represent 8% of growth in the U.S. and a significant market opportunity presents itself
- The development community is beginning to react to this opportunity in a number of ways. From suburban townhouses to multifamily apartments, family-oriented rental housing is starting to emerge across the country and these emerging product types are highlighted in this report

FAMILY RENTAL HOUSING FRAMING QUESTIONS

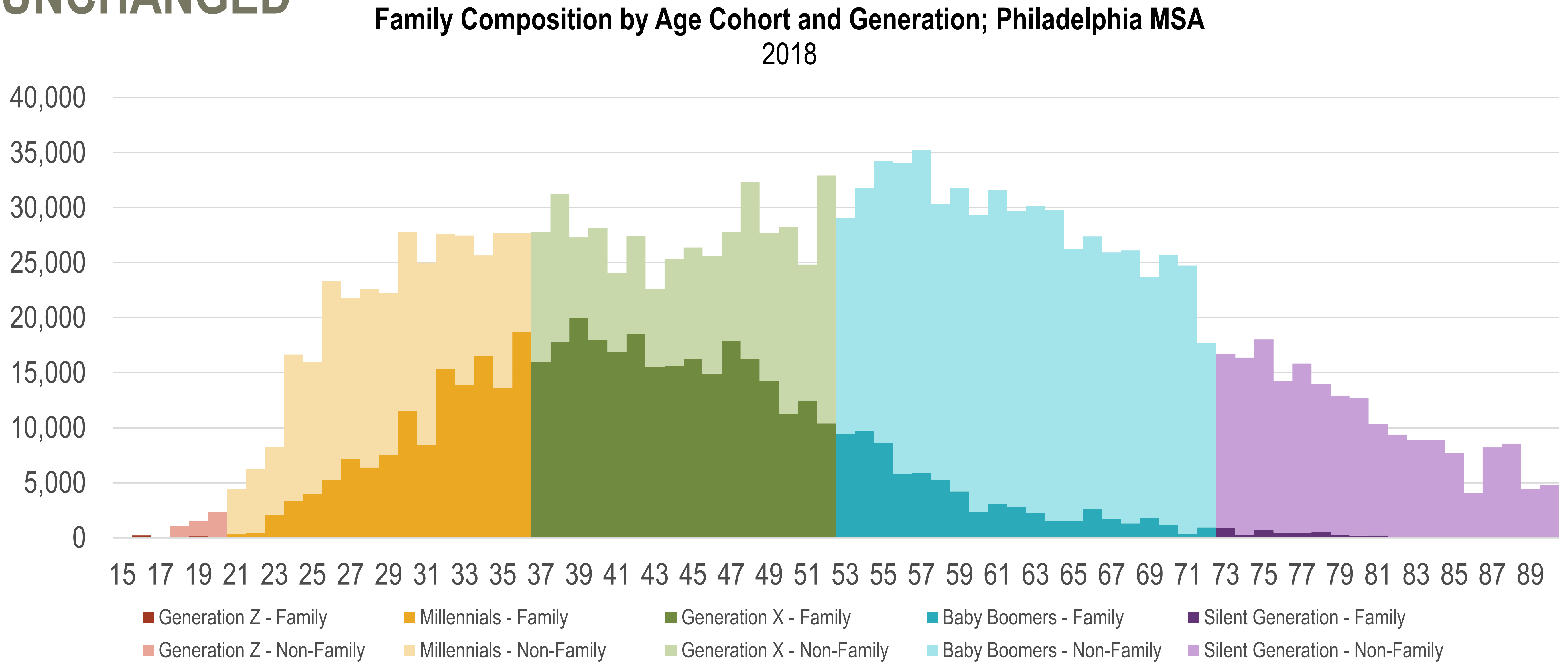
1. **Who are family rental households in the United States?**
2. **What can we say about this cohort as a market opportunity?**
3. **Where do they live today and what are we building for them (hint: not much)?**
4. **How are the Maryland markets different than other markets in the United States**
5. **How is the development community responding to the opportunity, locally and nationally?**
6. **What are the constraints and policy concerns?**

AS WE START A NEW DECADE. . . WHY SHOULD WE CARE SO MUCH?



Source: United States Census Bureau; 2017 National Population Projections Tables; American Community Survey PUMS

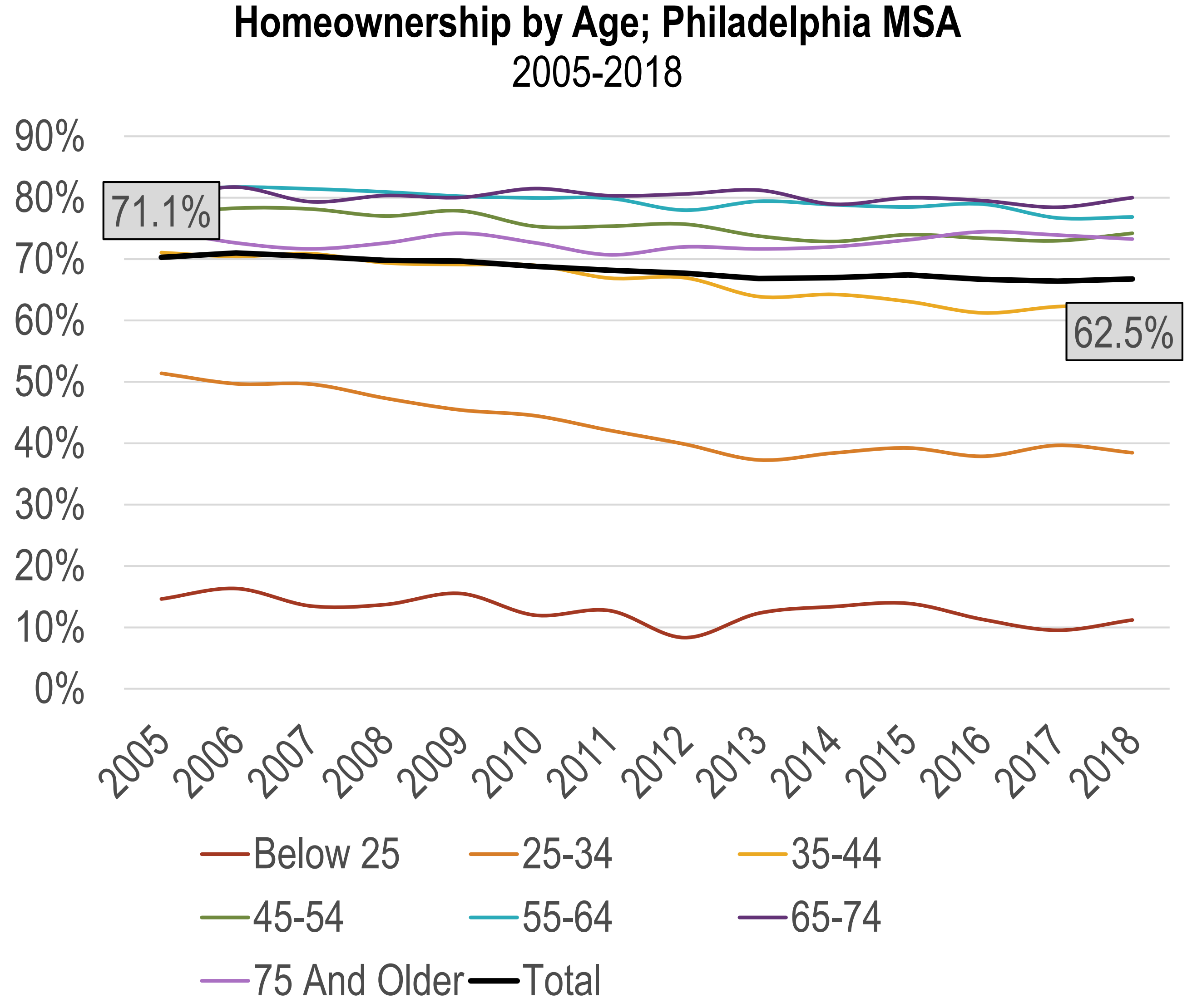
LATER PERHAPS, BUT FAMILY FORMATION RATE LARGELY UNCHANGED

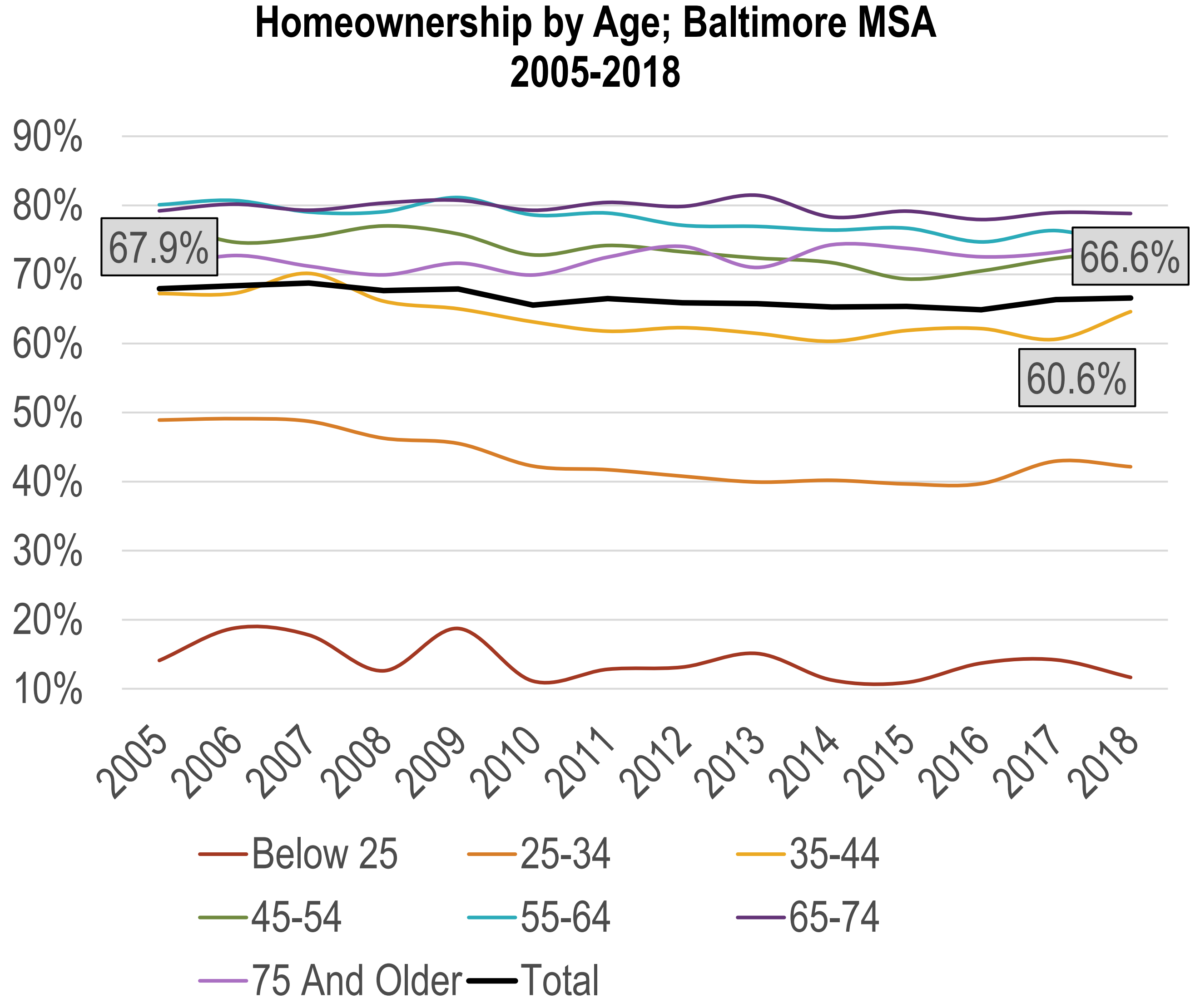


Source: United States Census Bureau; American Community Survey PUMS

RENTERSHIP RATES RISING IN EVERY AGE COHORT

FAMILY AGE HOUSEHOLDS SWITCH TO RENTAL HAS BEEN PARTICULARLY STRONG





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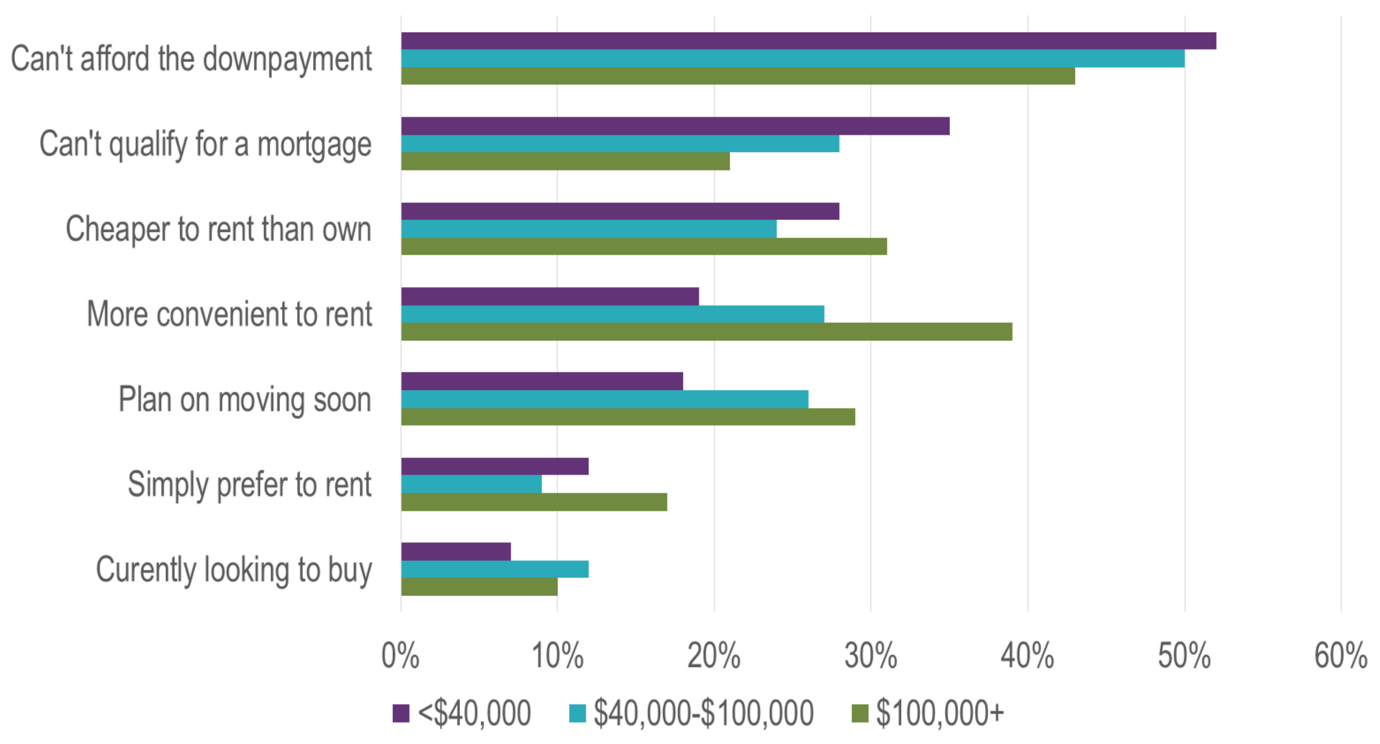
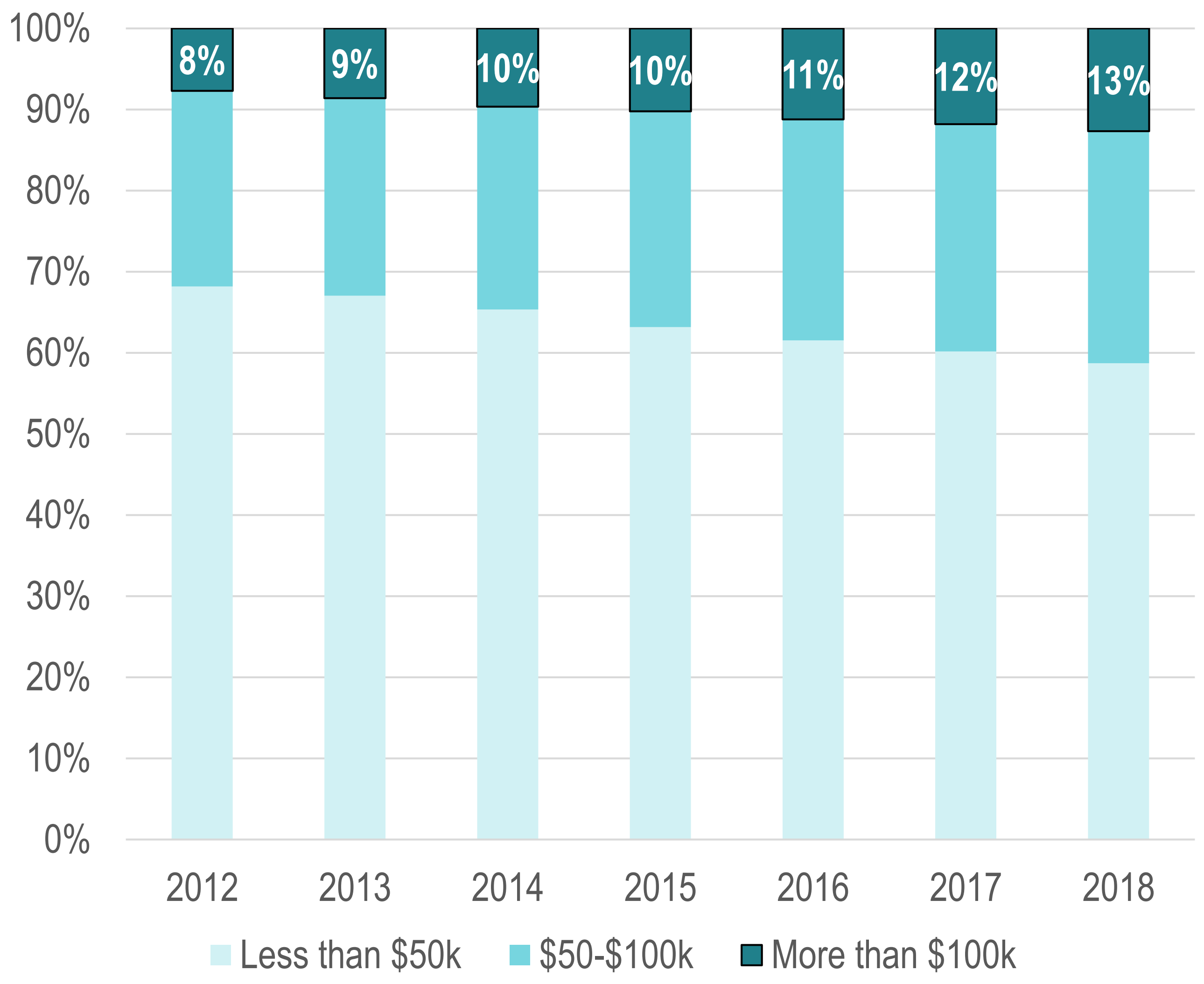
Source: iPUMS; RCLCO

WHY DO RENTERS RENT?

Reasons For Renting by Income Tier;
United States; 2019



Distribution of Renter Households by Household Income;
United States; 2012-2018



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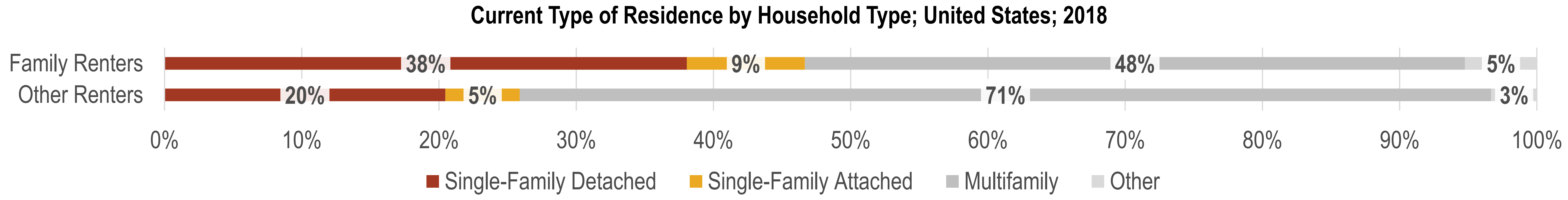
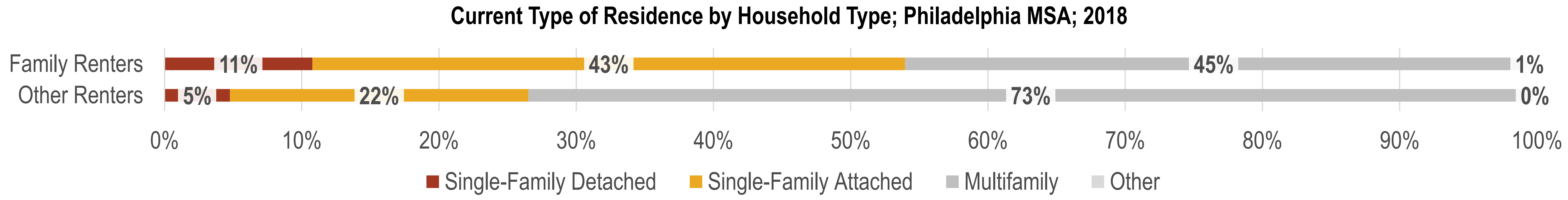
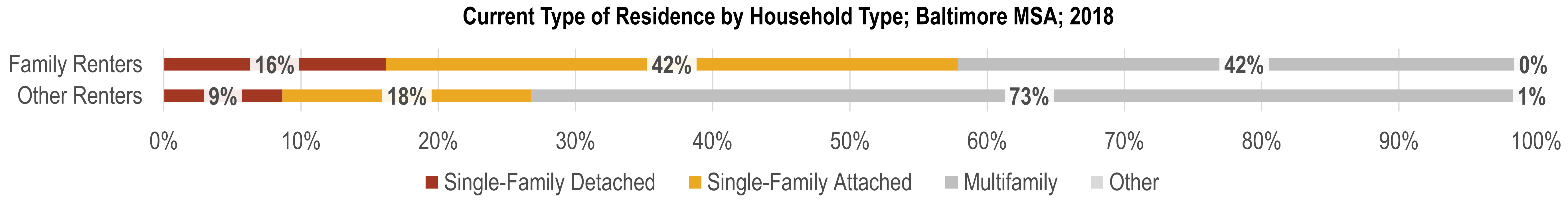
Source: RCLCO Consumer Research, Selected Markets

SO WHAT TYPE OF HOUSING DO THESE RENTERS LIVE IN TODAY?

NOTE THE HIGH PROPORTION OF TOWNHOME RENTER FAMILIES IN THE TWIN CITIES







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Source: United States Census Bureau; American Community Survey PUMS

SO WHAT TYPE OF HOUSING DO THESE RENTERS LIVE IN TODAY?

Distribution of Occupied Rental Housing Unit by Product Type; Raleigh Durham MSA
2018

	HOUSEHOLD TYPE				
PRODUCT TYPE	SINGLE	COUPLE	ROOMMATES	FAMILY	TOTAL
SFD	2%	2%	2%	5%	11%
SFA	5%	3%	5%	12%	25%
2-4 Unit Buildings	6%	1%	1%	2%	11%
5-49 Unit Buildings	17%	6%	5%	9%	37%
50+ Unit Buildings	12%	2%	1%	1%	16%
Other	0%	0%	0%	0%	1%
Total	41%	14%	15%	29%	100%

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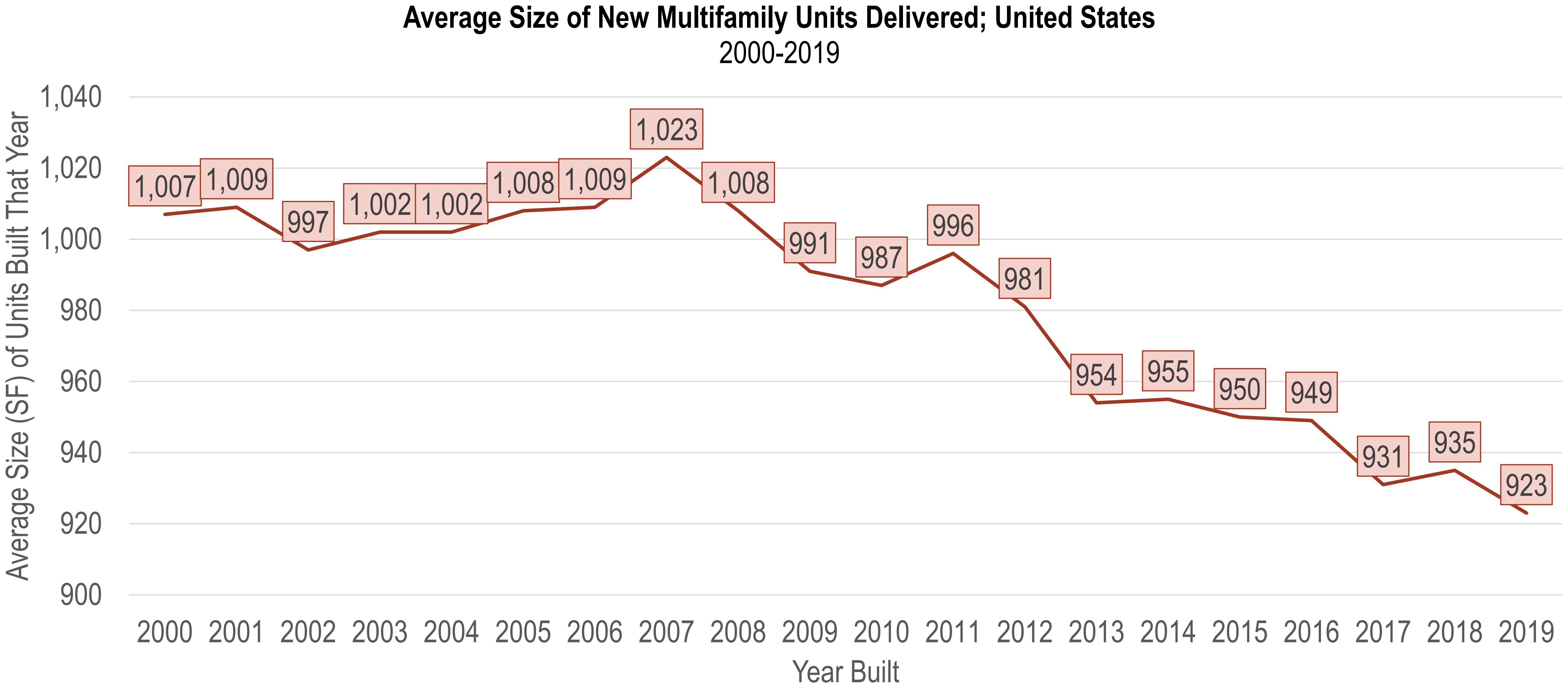
Source: American Community Survey PUMS

AND WHO ARE WE BUILDING FOR?

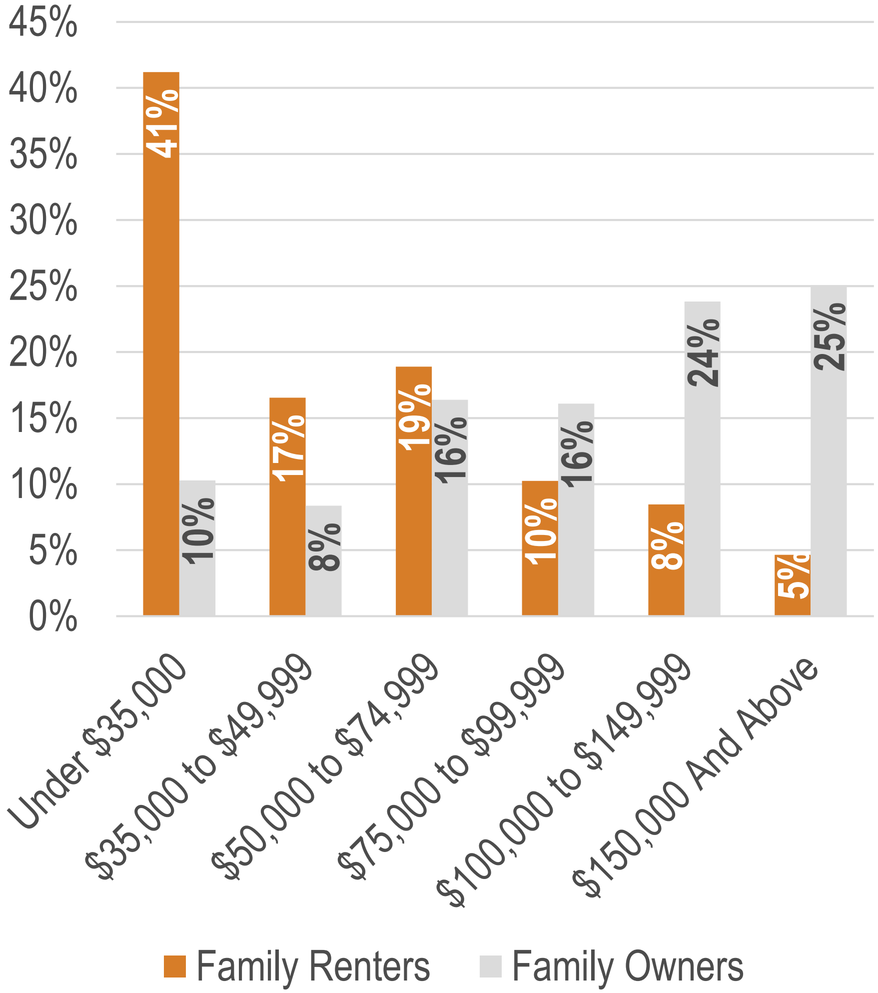


Source: Axiometrics; RCLCO

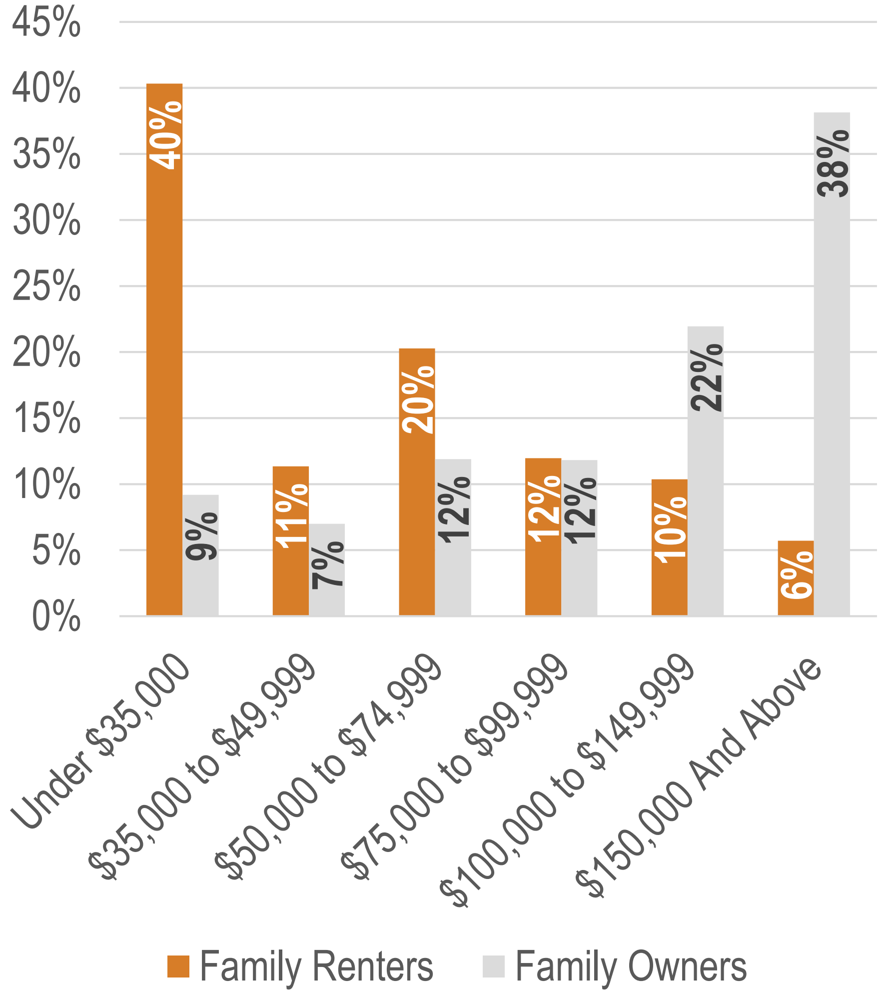
AND WHO ARE THESE RENTAL HOUSEHOLDS?

SIGNIFICANT LOCAL REPRESENTATION OF HIGH INCOME RENTER FAMILIES

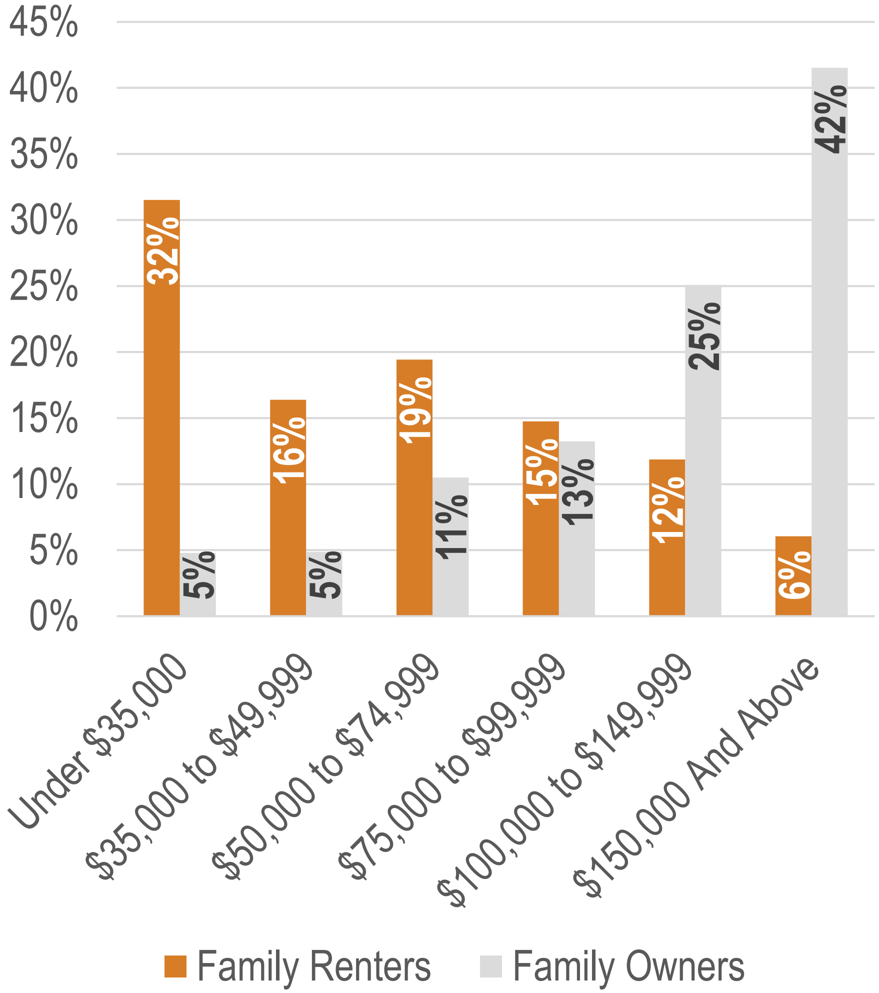
Income Distribution of Family Households; United States; 2018



Income Distribution of Family Households; Philadelphia MSA; 2018



Income Distribution of Family Households; Baltimore MSA; 2018



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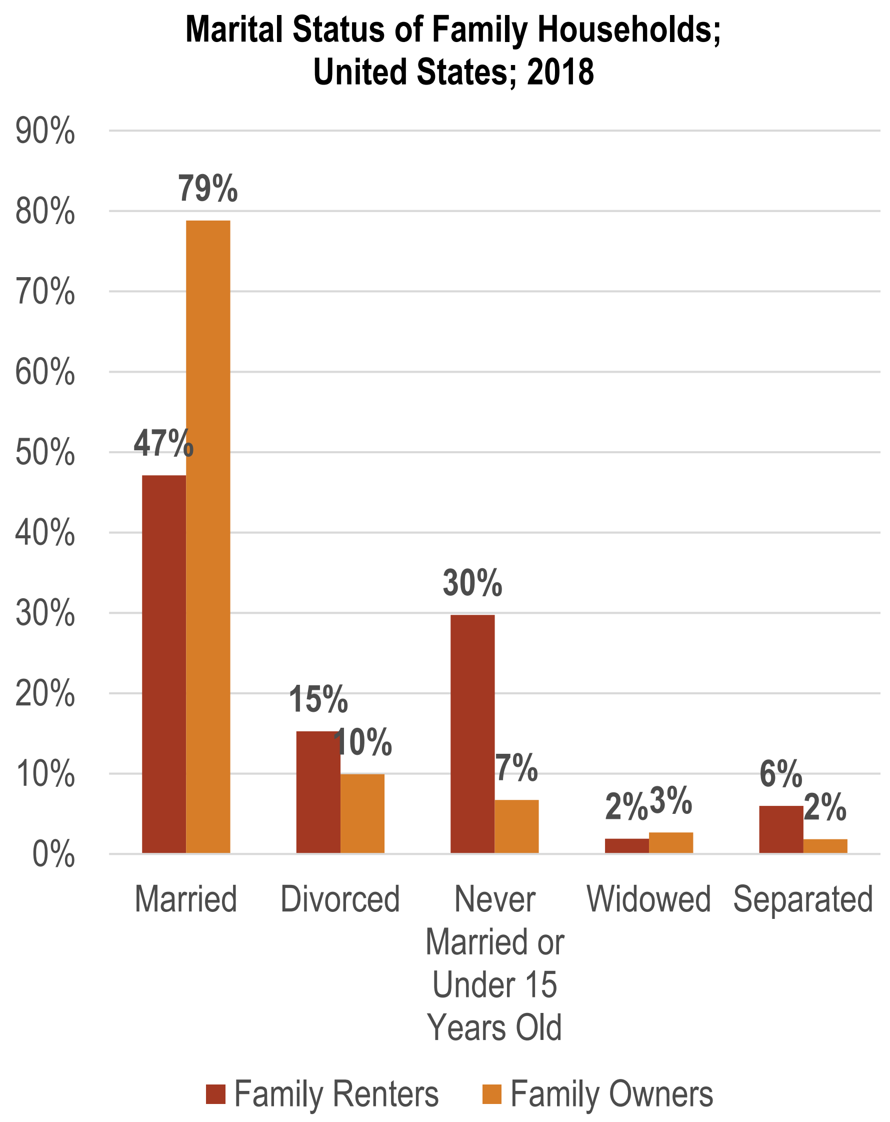
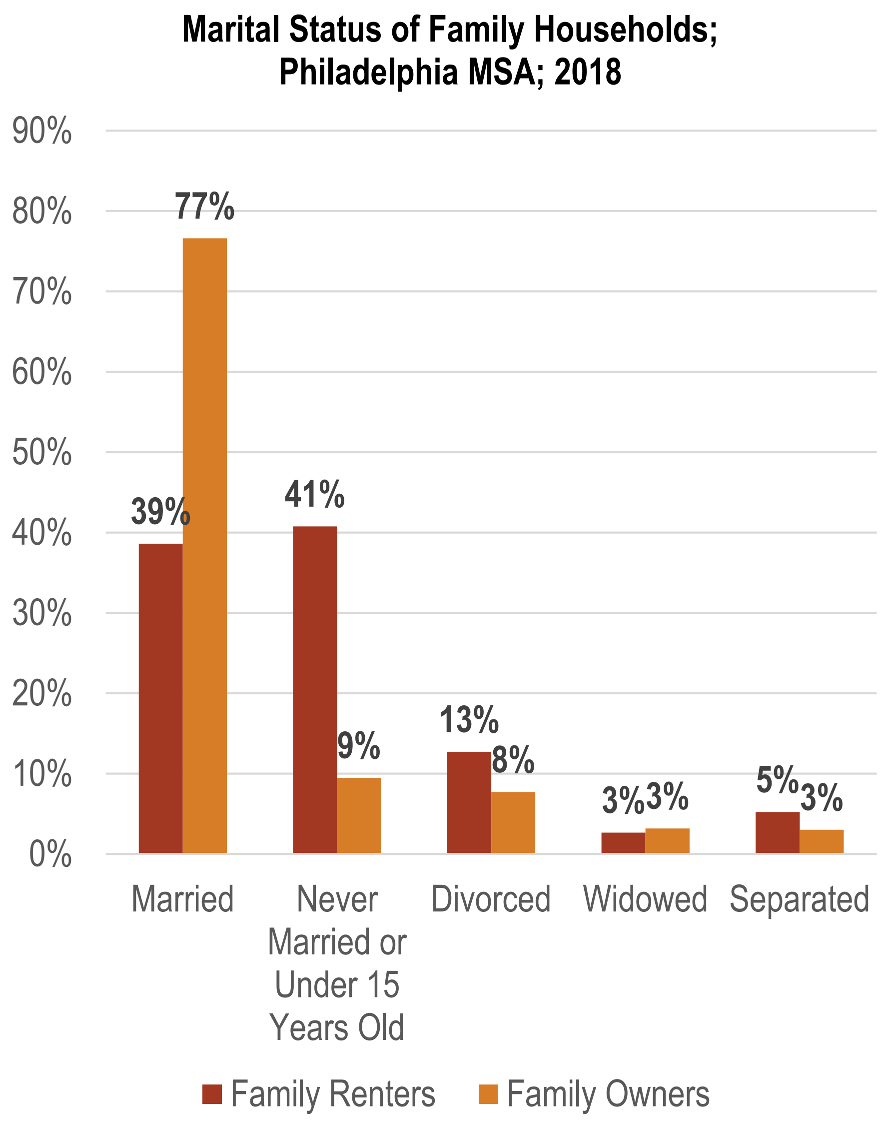
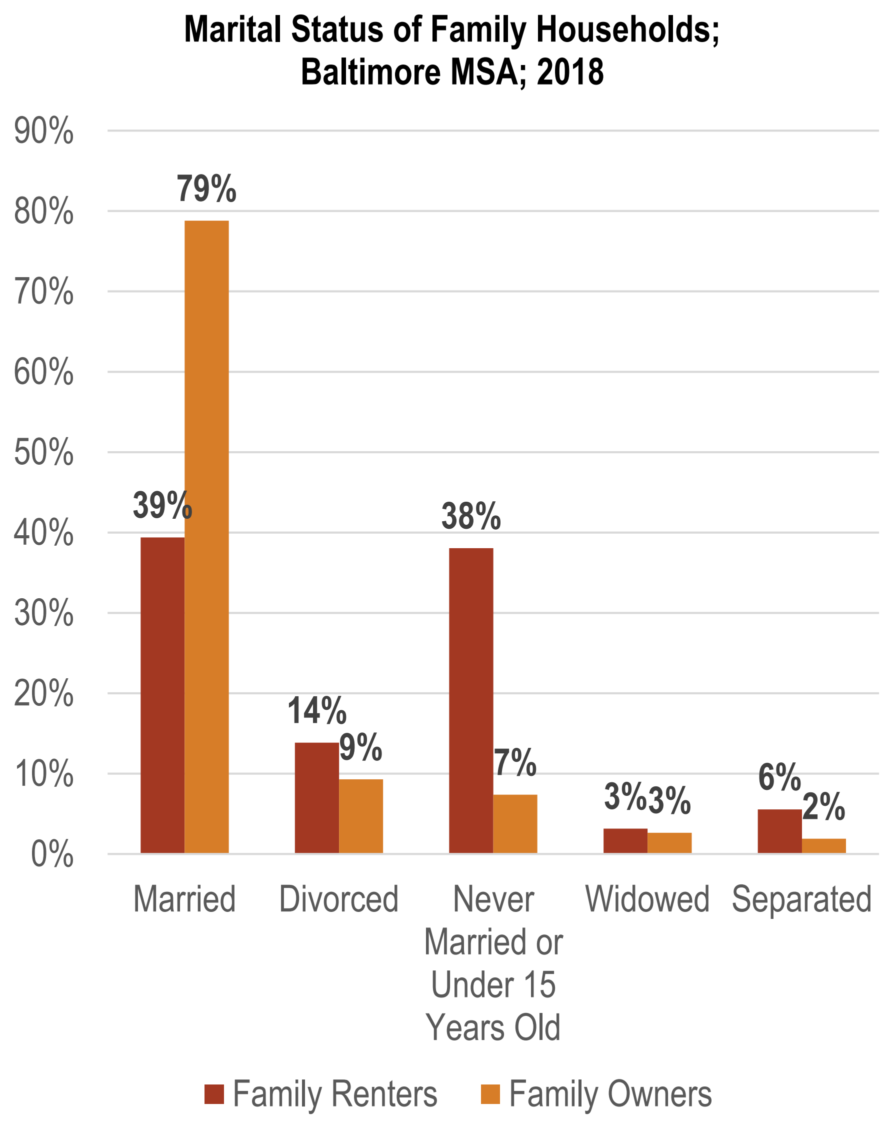
Source: United States Census Bureau; American Community Survey PUMS

AND WHO ARE THESE RENTAL HOUSEHOLDS?

WONDERFULLY VARIED AND COMPLEX







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Source: United States Census Bureau; American Community Survey PUMS

1. SUBURBAN RENTAL APARTMENTS FOR FAMILIES

Some signs of life in this sector

The Arbors (Bozutto?); White Marsh; Baltimore, Maryland

- *Lots of Two-bedrooms or more*
- *Two-bedrooms avg. 1,200+; Three-bedrooms 1,500-2,000+*
- *Large unit rents problematic. . .*
- *Good schools*
- *Family amenities!*

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Source: Developer Website

2. SUBURBAN SINGLE-FAMILY HOMES FOR-RENT

Sector emerging in the fast-growing sunbelt region

Homestead at Hartness Cottage Homes; Greenville, South Carolina

- *70% three-bedrooms*
- *Average unit size of 1,650 SF*
- *Rents $1.16*
- *Low cost amenities focused on outdoor, active lifestyle*

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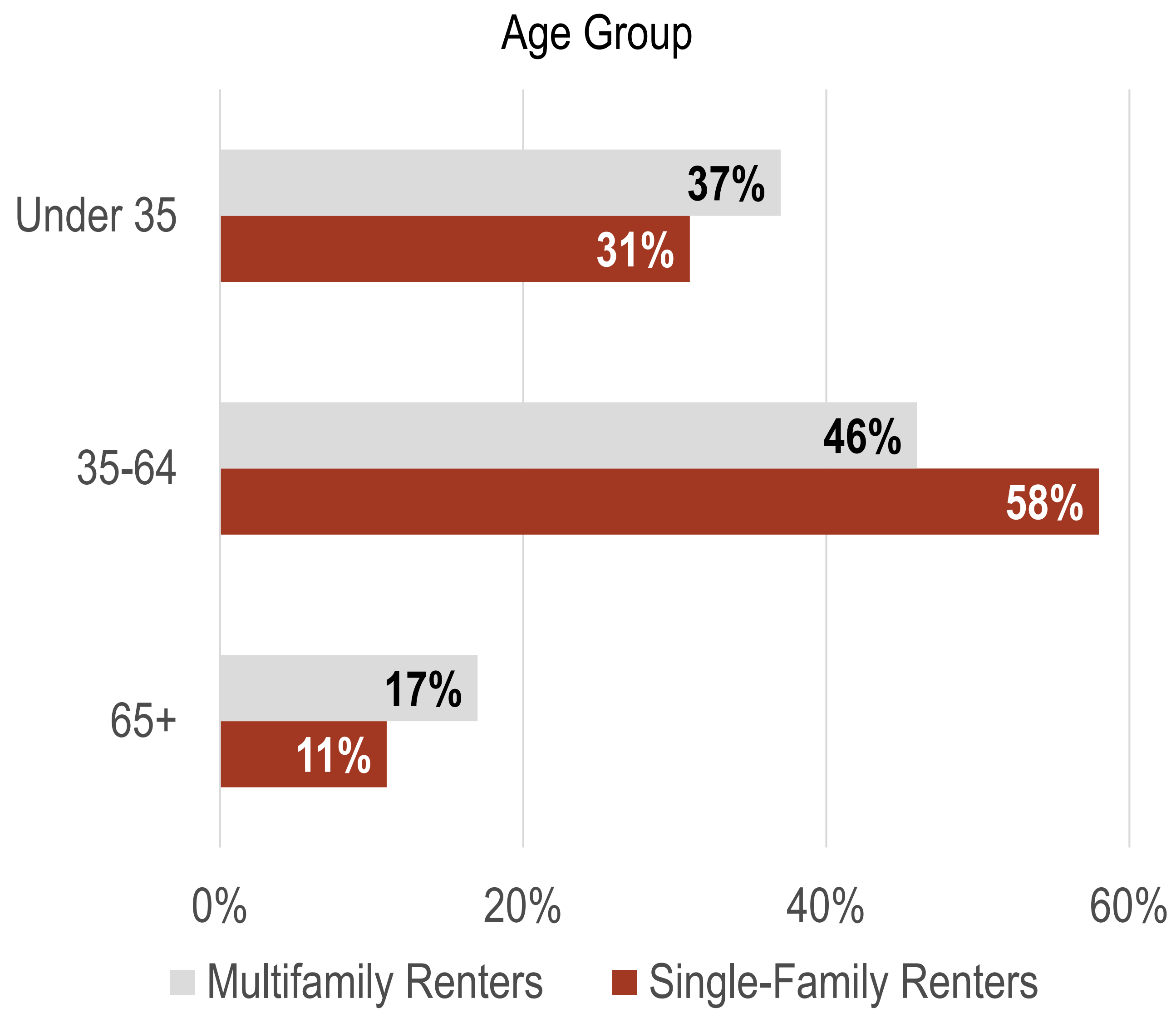
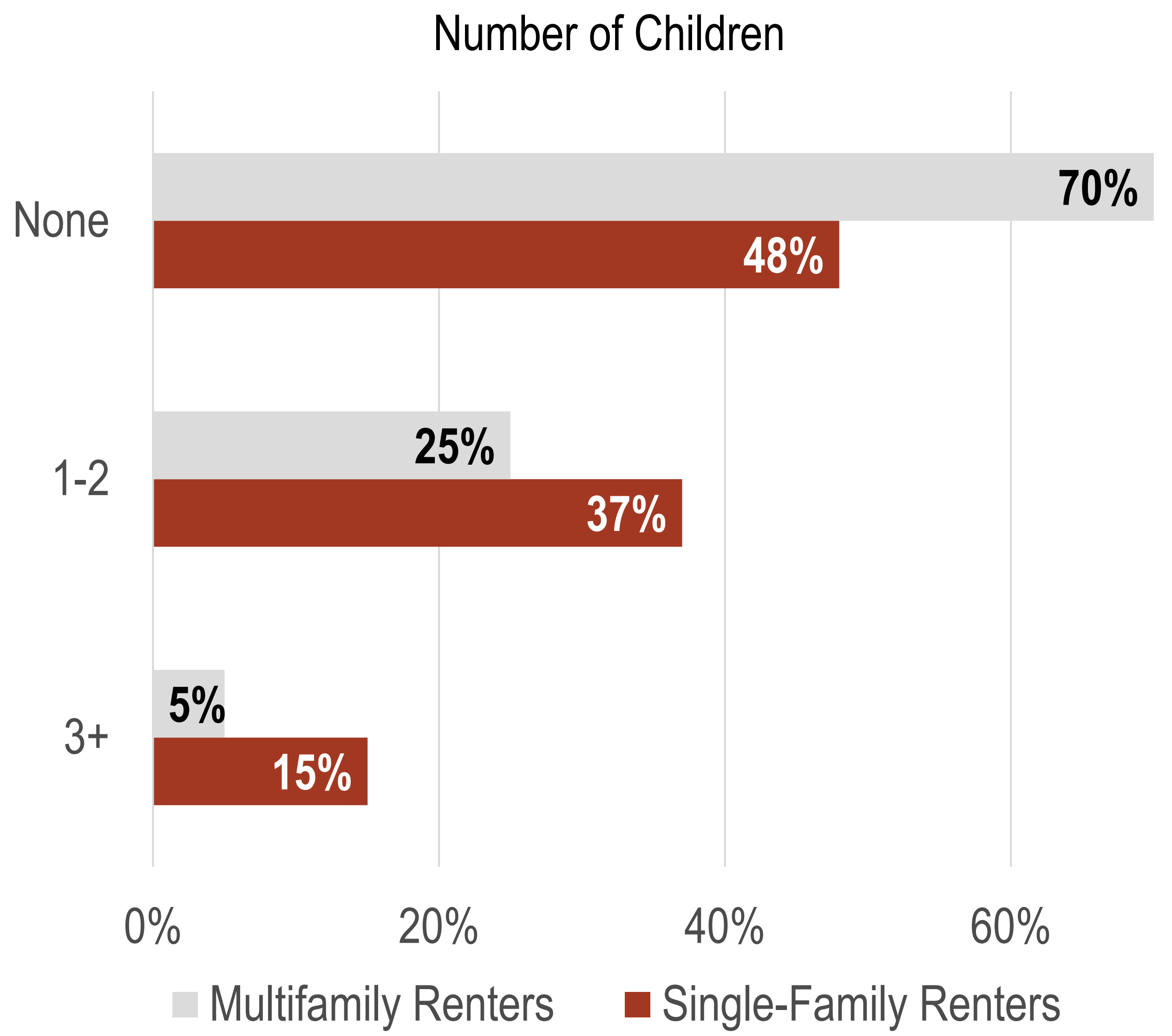
Source: Community Website

WHAT DO WE KNOW ABOUT SINGLE-FAMILY RENTERS SPECIFICALLY

Single-Family Renters Household Composition; United States; 2019





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Source: RCLCO Consumer Research, Selected Markets

HOW QUICKLY WILL THE HOUSING INDUSTRY PIVOT?

RCLCO Macro Housing Demand Forecast; United States
2019-2029

	HISTORICAL GROWTH IN OCCUPIED INVENTORY		STRUCTURAL DEMAND	REALIZED DEMAND
	2010-2019	2015-2019	2019-2029	2019-2029
Headship			2015-2019 Avg.	
% Married			2015-2019 Trend	
% With Children			1990-2019 Trend	
% in MF			2015-2019 Avg.	
% Own			2010-2019 Trend	
NEW HHs	**1,149,368**	**1,017,314**	**1,408,563**	**1,408,563**
SF	**588,558**	**747,535**	**960,314**	**860,314**
Own	138,221	670,760	409,565	609,565
Rent	450,337	76,776	550,750	250,750
2-4 Unit/Other	**39,086**	**-115,708**	**183,472**	**41,757**
Own	39,404	43,838	83,515	41,757
Rent	-318	-159,546	99,958	0
MF	**521,725**	**385,487**	**264,777**	**506,491**
Own	227,348	249,073	173,669	215,426
Rent	294,377	136,414	91,108	291,065
Owners	**404,973**	**963,671**	**676,071**	**866,748**
Renters	**744,395**	**53,643**	**661,611**	**541,815**
Ownership Rate	**35.2%**	**94.7%**	**50.5%**	**61.5%**

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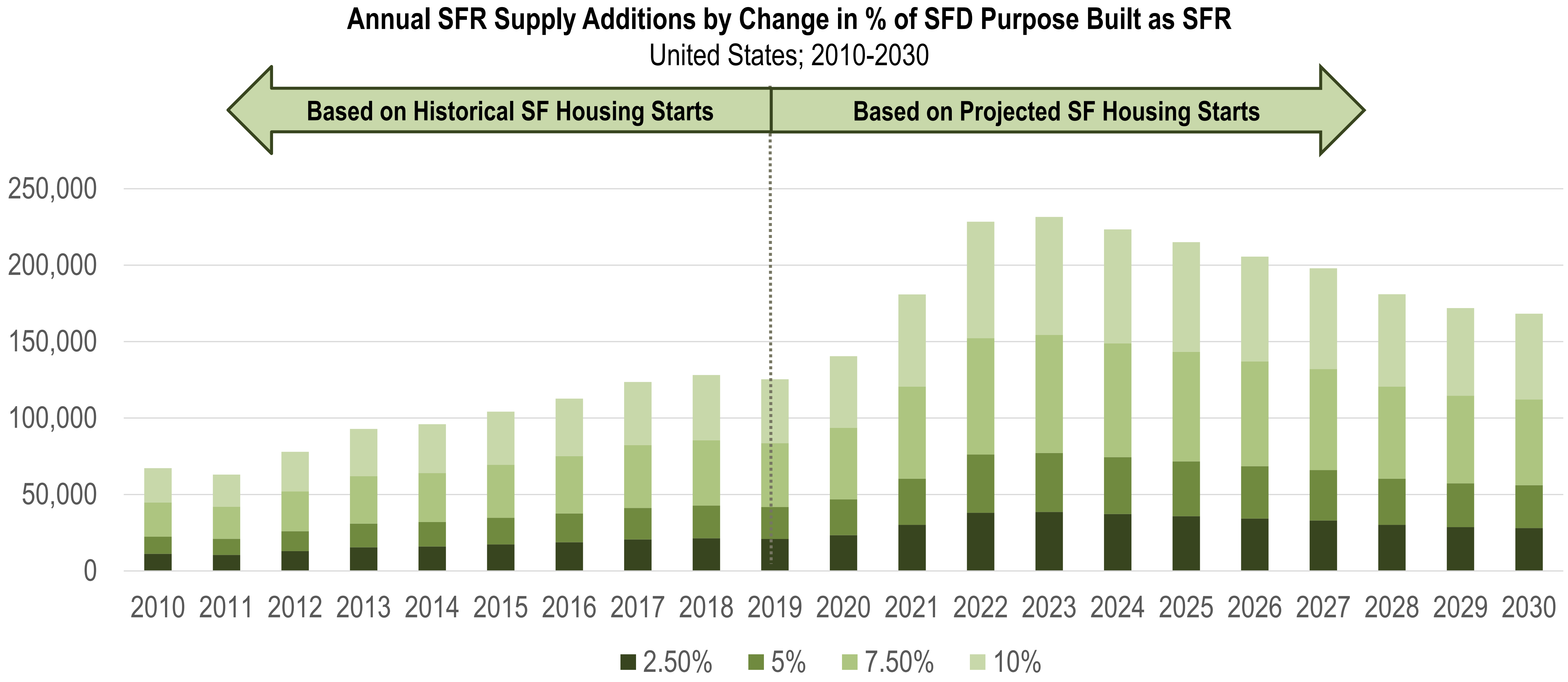
Source: American Community Survey PUMS

AND WHO ARE WE BUILDING FOR?



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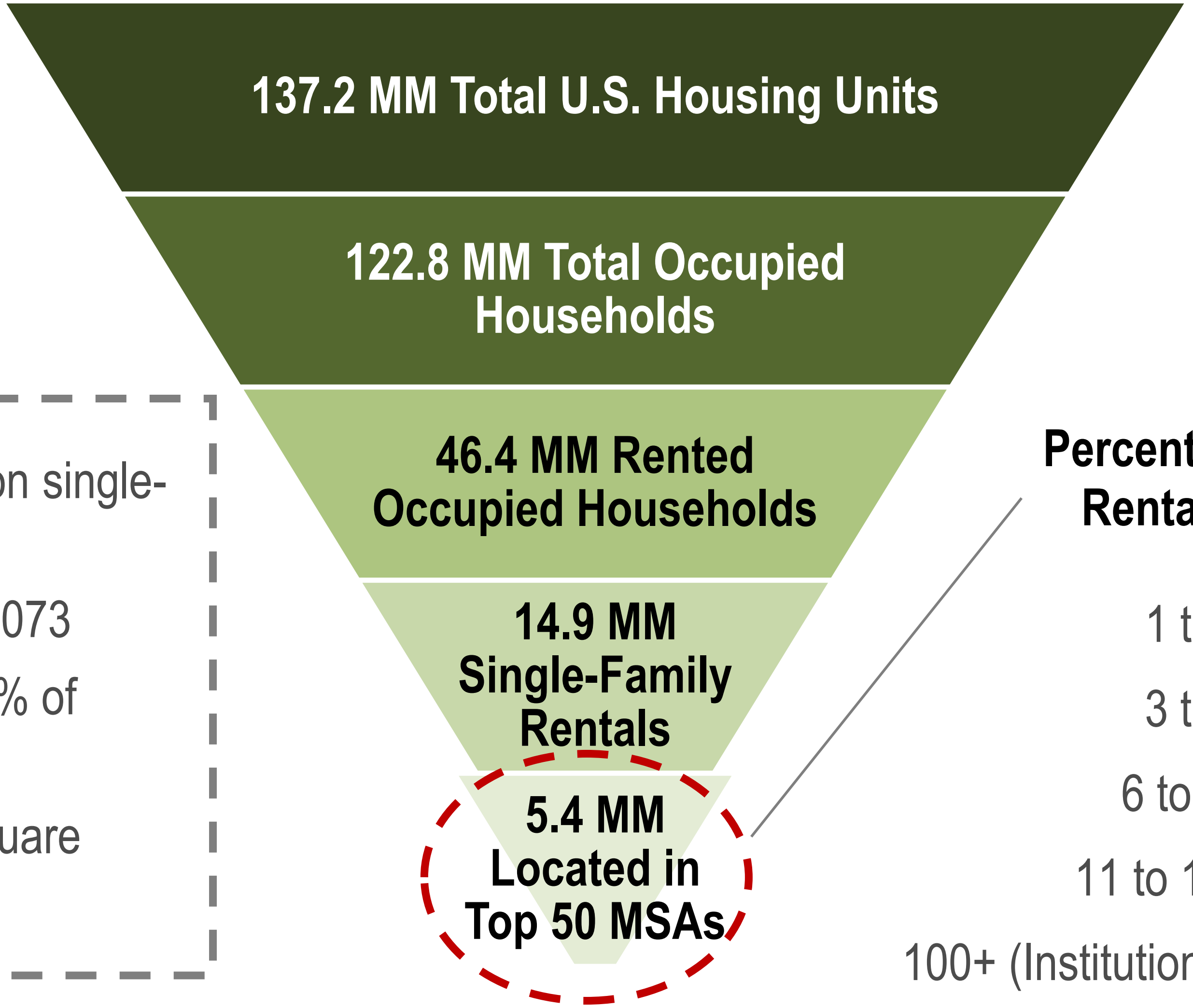
Source: Axiometrics; RCLCO

AND WHO ARE WE BUILDING FOR?

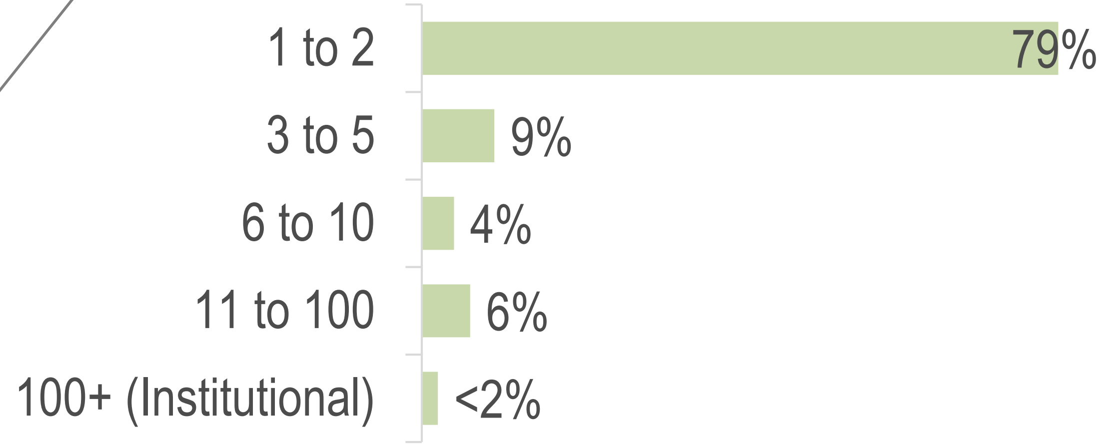
Average Size of New Multifamily Units Delivered
United States; 1980-2019



Key metrics of the 14.9 million single-family rentals:

- Median monthly rent: $1,073
- Median housing cost as % of income: 33.2%
- Median size of home (square feet): 1,210

Percentage of Total U.S. Single-Family Rental Properties by Portfolio Size



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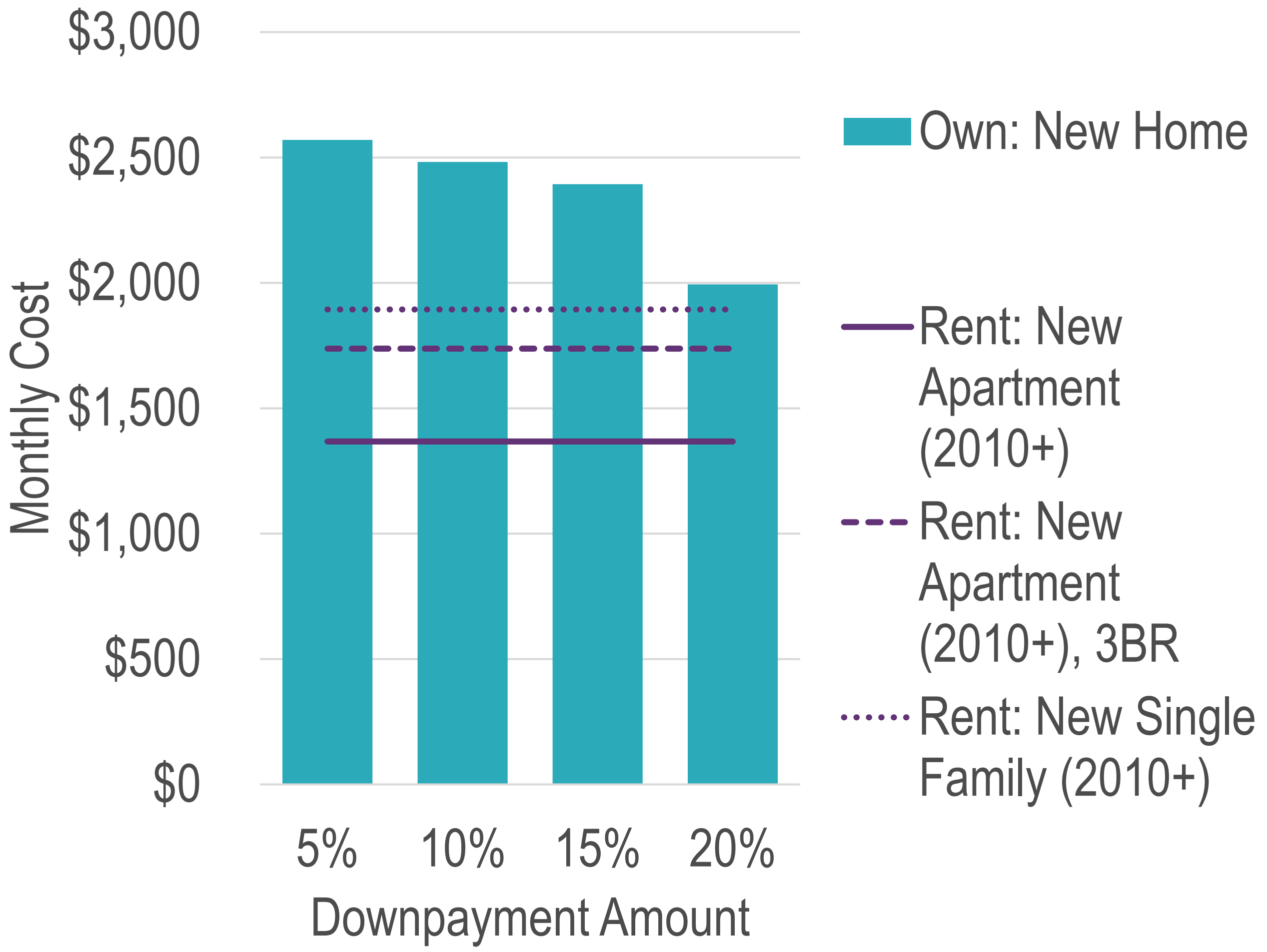
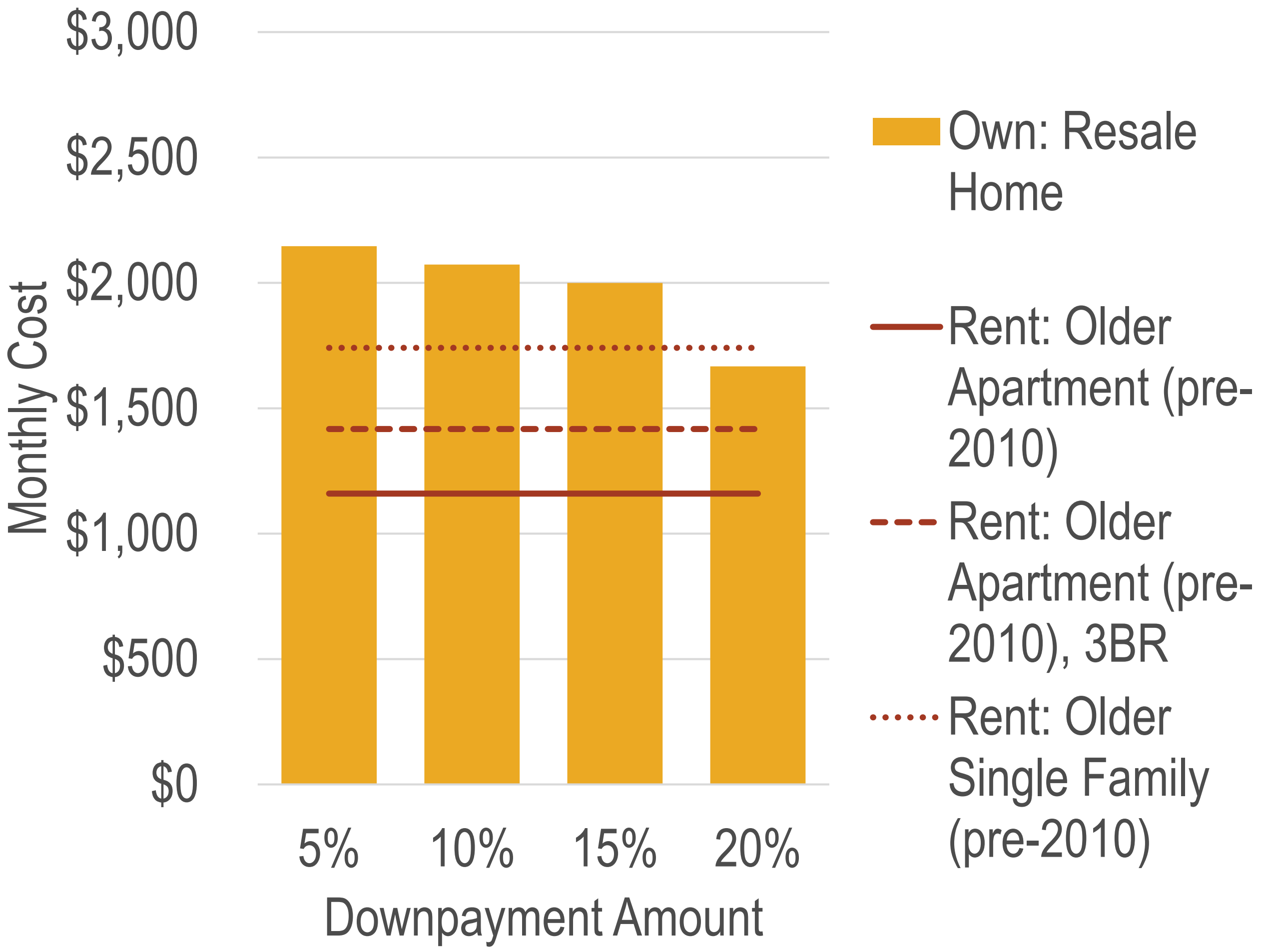
Source: Axiometrics; RCLCO

VALUE PROPOSITION? RENTING GENERALLY CHEAPER THAN OWNING

Comparison of Monthly Costs of Owning and Renting: New Homes*
Raleigh Area; 2020



Comparison of Monthly Costs of Owning and Renting: Older Homes*
Raleigh Area; 2020



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3. DETACHED/ATTACHED APARTMENTS

Some movement here as developers fill gap for needed transitional living

Orchard Ridge (Penrose); Baltimore, Maryland

- *Redevelopment of Freedom Village Apartments, NE Baltimore*
- *Low density townhomes*
- *3Br – 1,500 sf (too big?)*
- *Note the solar*
- *Rents < $1,000*
- *Not amenitized*

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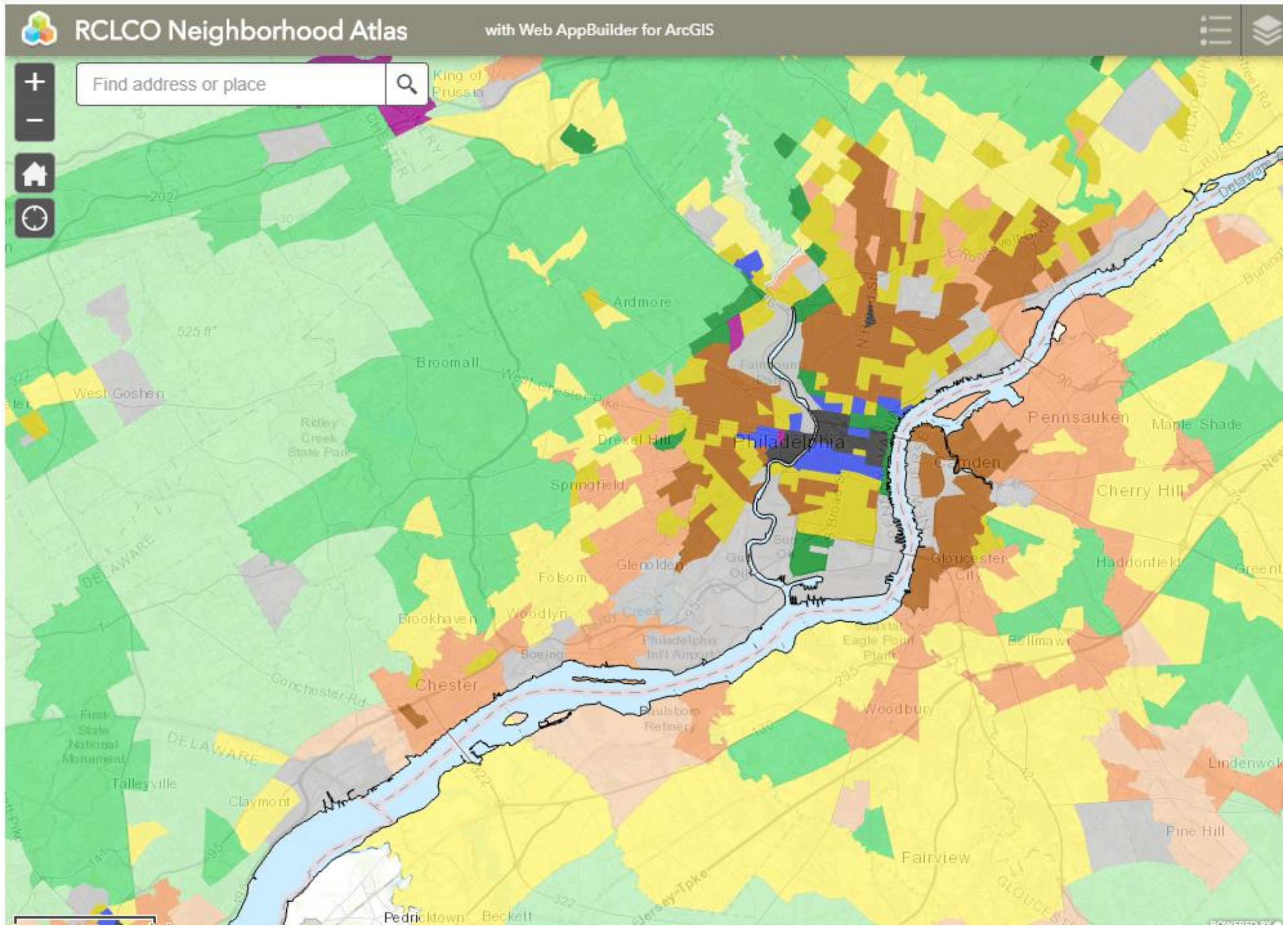
Source: Community Website

3. RENTAL TOWNHOMES

Potentially works in so many place types



Legend

Urban Classifications

Urban_Classifications

- Economic Center
- Emerging Economic Center
- Mixed-Use District
- High-End Neighborhood
- Stable Neighborhood
- Challenged Neighborhood
- Other

Suburban Classifications

Suburban_Classifications

- Established High-End Suburb
- Stable Middle-Income Suburb
- Economically Challenged Suburb
- Greenfield Lifestyle Suburb
- Greenfield Value Suburb
- Low-Density Commercial/Institutional/Park
- Rural
- Other

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3. LUXURY RENTAL TOWNHOMES

Product solution gaining momentum as many young families are priced out of owning in desirable urban or inner suburban neighborhoods

Camden Highland Village Townhomes; Houston, Texas

- *38 three-bedroom or more townhomes in upscale urban Houston setting*
- *Average unit size of 2,300 SF*
- *Rents $2.06*
- *Luxury finishes*
- *Attached two-car garages, private entrances*
- *Shared amenities with neighboring apartment community*

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Source: Community Website

4. DETACHED/ATTACHED APARTMENTS

Some movement here as developers fill gap for needed transitional living

Sunrise on the Monon; Carmel (Indianapolis), Indiana

- *Stacked apartments, look like townhomes*
- *Attached one- and two-car garages*
- *Benefits from high-performing public schools in upscale suburban setting*
- *46% two-bedroom or more*
- *Average unit size of 1,100 SF*
- *Rents $1.31*

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Source: Community Website

4. DETACHED/ATTACHED APARTMENTS

Some movement here as developers fill gap for needed transitional living

Avilla Preserve; Phoenix, Arizona

- *Detached, single story*
- *Net density of 20 DU/Acre+*
- *Rents 20% above conventional multifamily*
- *Can compete for land with MF guys*
- *Simple, efficient 2B+3B units*
- *Sacrifice on outdoor space*
- *Simple amenities – pool only*

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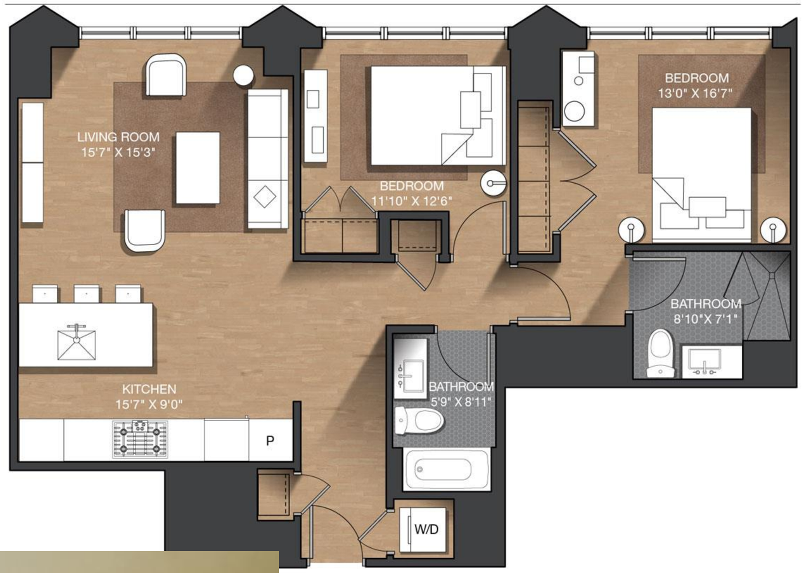
Source: Community Website

5. URBAN RENTAL APARTMENTS FOR FAMILIES

Green shoots – America going the way of Europe and asia?

The Girard; Center City, Philadelphia

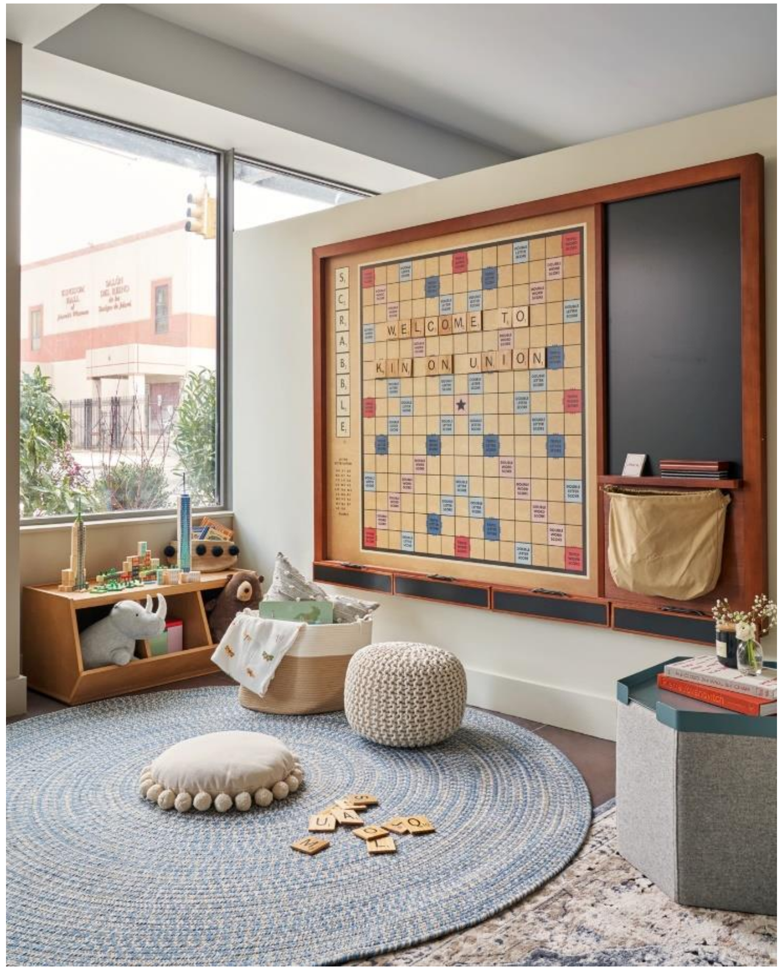


Source: Advisor Perspectives; U.S. Census

5. URBAN RENTAL APARTMENTS FOR FAMILIES

Still very little activity here

Kin on Union; Brooklyn, New York



- *Condo project pivoted to family rentals*
- *Light design modifications for family target*
- *Studios, 1's, 2's and 3-BR's*
- *Space: Family-friendly amenity spaces, gym, roof deck, stroller parking, baby-proofing kits*
- *Services: Nanny sharing + other childcare solutions, early childhood development programming, community-building app, tailored family perks + partnerships*
- *Achieving $6.00 psf (10% above underwritten rents), lease-up started on March 27th*

Source: Developer Website

DEVELOPMENT COMMUNITY – WHY SO LITTLE ATTENTION HERE?

1. Why bother? Business is good. . .
2. Headlines ("Millennials") so misleading?
3. Capital market guidance
4. There's no good Baltimore market data
5. Not clear if the "juice is worth the squeeze"

REGULATORY ROAD BLOCKS

1. **Single-family zoning**
2. **Urbanizing southeast communities (sadly) no longer want school kids**
3. **Traffic impacts is an unwinnable battle**
4. **Impact fee relief?**
5. **Do zoning and building codes in America drive the industry to luxury housing?**

DISCUSSION QUESTIONS

1. Can (should) we discuss this as both a business opportunity and a social equity objective?
2. Will the development community focus on non-luxury housing without public incentives to do so? What needs to happen to tip the balance?
3. What new housing types have we missed here?
4. What dynamics are unique to Maryland?
5. What data, information and support can ULI provide to encourage the above?

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

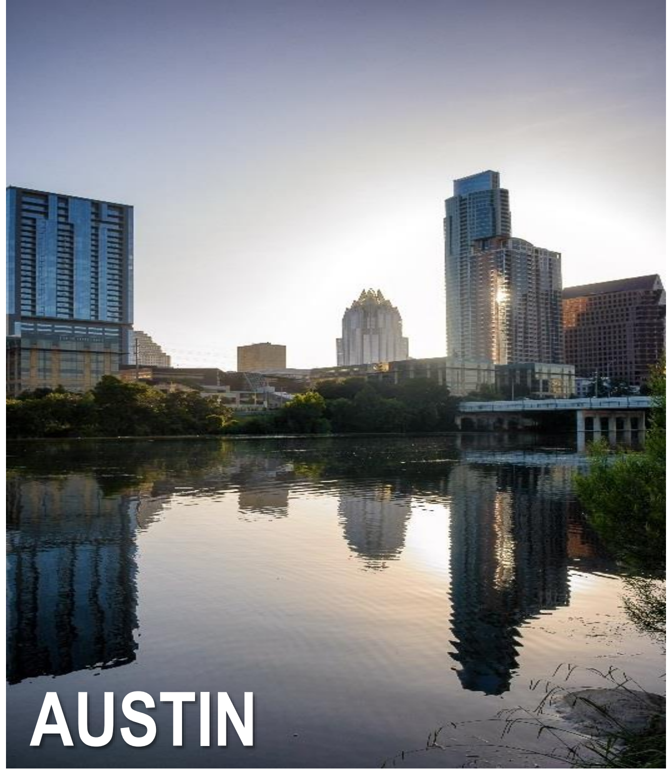
Should any of the above change, this analysis should be updated, with the conclusions reviewed accordingly (and possibly revised).

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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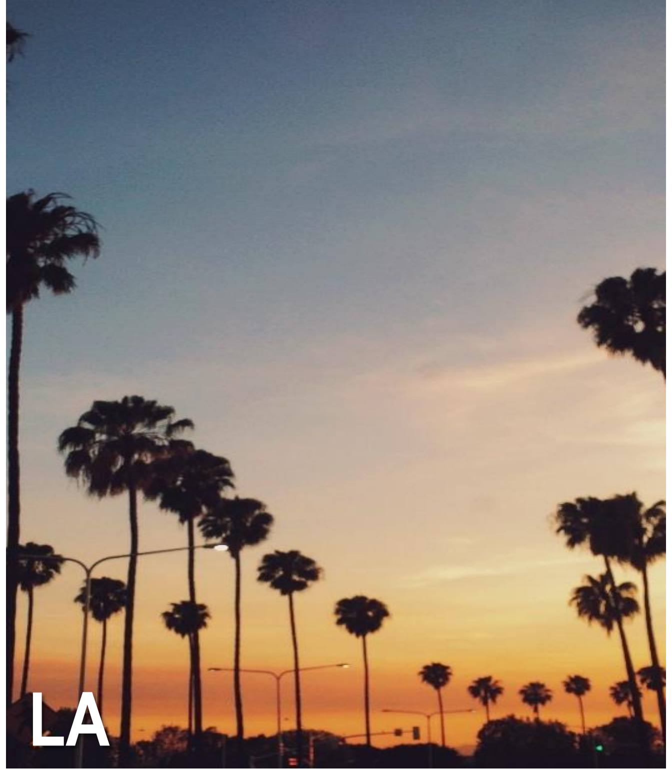

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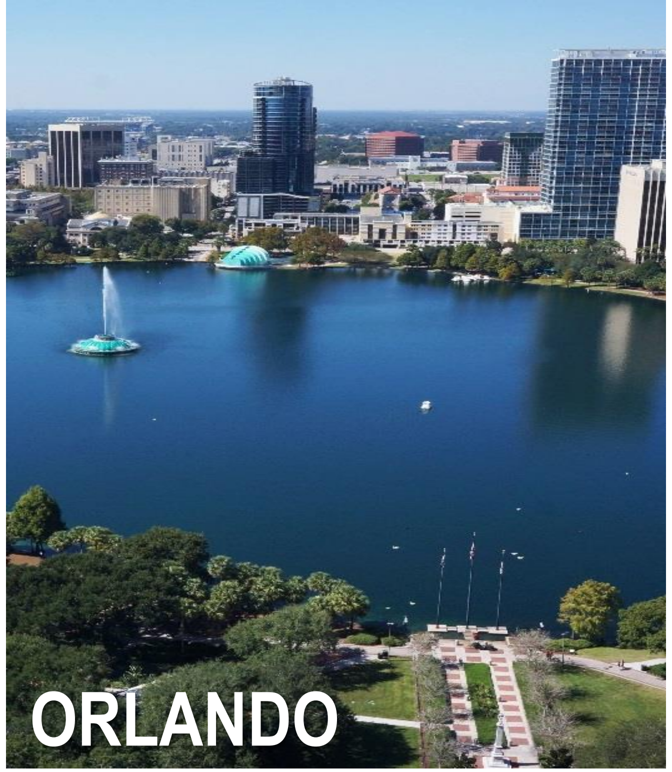

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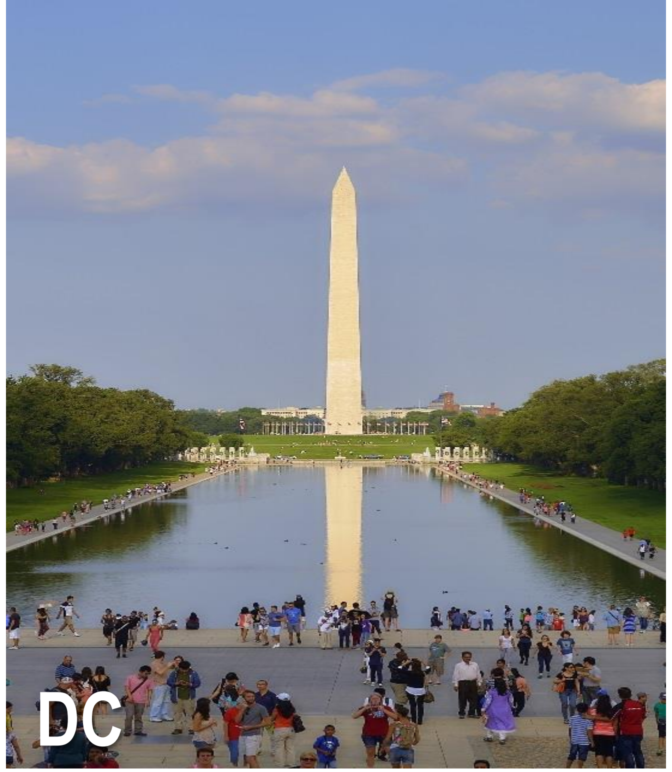

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