RENTAL HOUSING UPDATE: AUSTIN, TEXAS

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Managing Director

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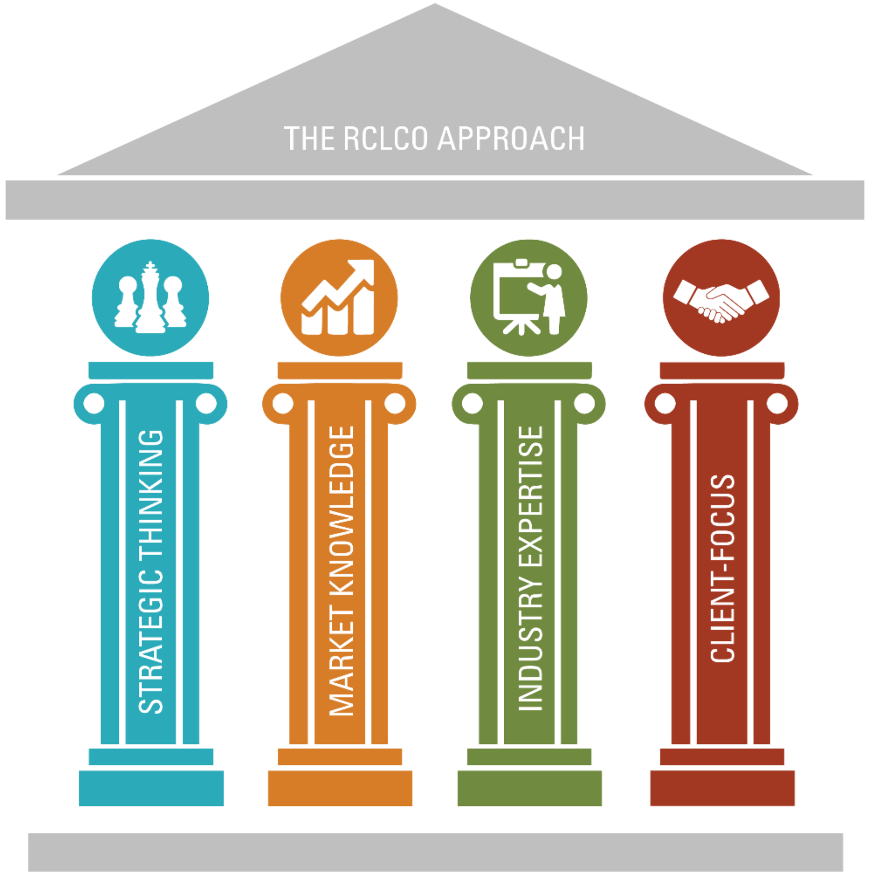
REAL ESTATE ADVISORS

ABOUT THE FIRM

Offering Real Estate Strategy Since 1967

- RCLCO (formerly Robert Charles Lesser & Co.) is the leading knowledge solutions provider to the real estate industry
- "First call" for those seeking strategic and tactical advice regarding property investment, planning, and development
- We provide end-to-end advisory and implementation solutions at an entity, portfolio, or project level
- Engaged on ~500 projects annually touching more than $5B in real estate
- Affiliated with more than 25 leading industry associations including ULI, NMHC, etc.
- Our mission is to help our clients make strategic, effective, and enduring decisions about real estate



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WHERE WE ADD VALUE – OUR SERVICES

Real Estate Economics, Management Consulting, Investment Strategy, Asset Management, & Legal Support

- Feasibility Services
- Acquisition Underwriting
- Repositioning & Reuse
- Market Opportunities
- Portfolio Analysis/Optimization
- Competitive-Edge Strategies
- Consumer Insight

- Fiscal & Economic Impact Analysis
- Partner Selection
- Asset Management
- Metropolitan Growth Strategies
- Downtown Reinvestment Action Plan
- Highest & Best Use

- Neighborhood Planning
- Anchor Institution Support
- Economic Development
- Corridor & Small Area Planning
- Transit-Oriented Development Strategies
- Parks: Strategy, Financing
- Litigation Support

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SAMPLE CLIENTS

- Anderson-Pacific, Inc.
- AECOM Capital
- Brookfield
- Carmel Partners
- Century West Partners
- Forest City
- IDS Real Estate Group
- Intracorp
- KB Urban
- Kennedy Wilson Multifamily
- Lennar West
- Lowe Enterprises
- Mack Urban
- Marina Admiralty Company
- Mill Creek Residential
- Resmark Apartment Living
- Related California
- Sandstone Properties
- Shea Properties
- Simpson Housing
- South Group
- Trammell Crow Company
- Wanda Group
- **And many more!**

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COVID IMPACTS ON MULTI-FAMILY MARKET

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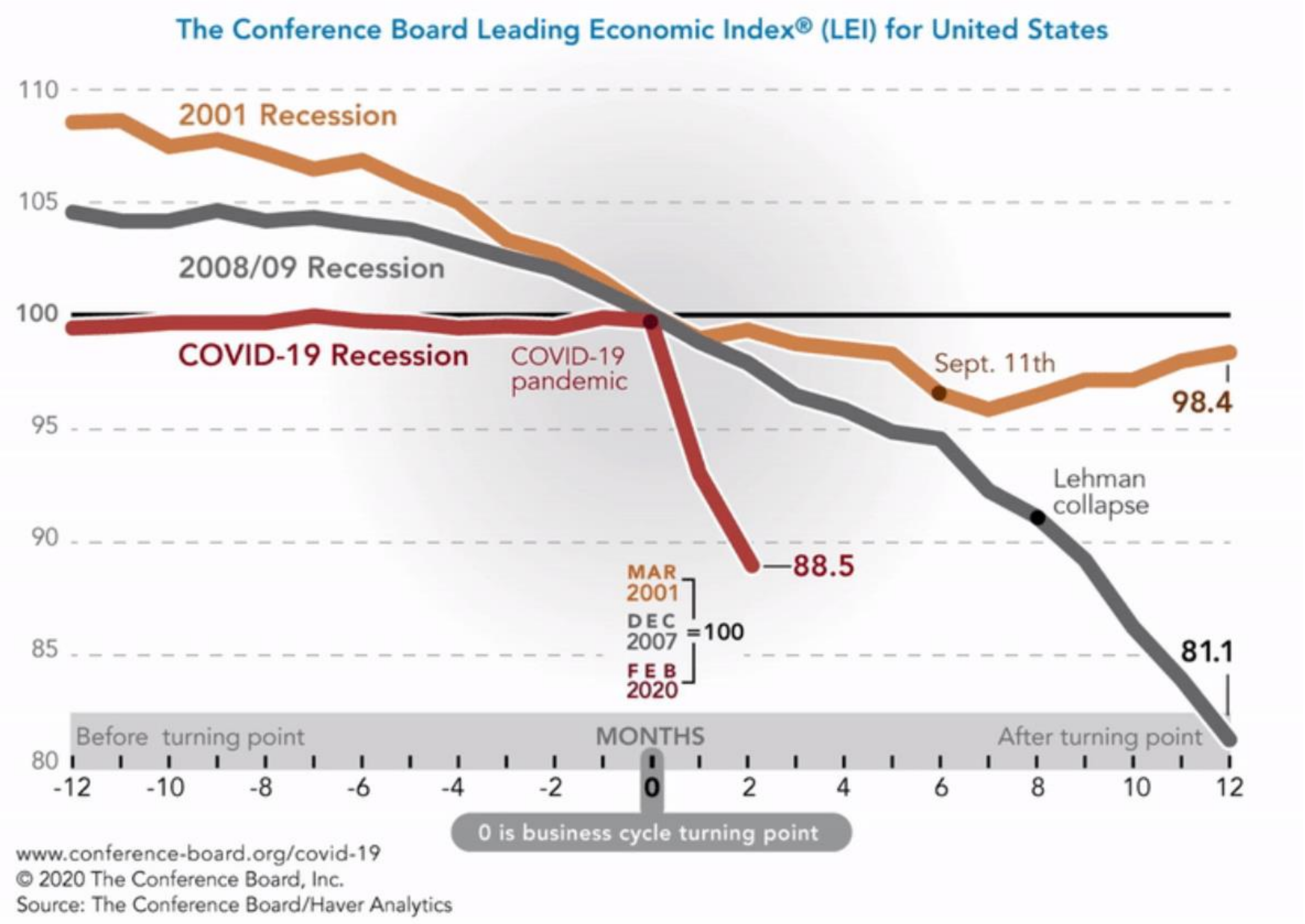
COVID-19 & CONSUMER CONFIDENCE

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.



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

COVID-19 & CONSUMER CONFIDENCE

Updated: September 29, 2020, The Conference Board, (monthly)

- Consumer Confidence Index rebounded more quickly in September that most economists had expected – the index increased +15.5 points in September to 101.8 (1985 = 100)
  - This followed a decrease of -6.9 points in August
  - The Present Situation Index increased from 85.8 to 98.5
  - The Expectation Index also increased from 86.6 in August to 104.0 this month
- Consumer confidence is closely watched for signals about consumer spending, which accounts for 70% of GDP

U.S. Indicators

- ▲ Consumer Confidence
  + 15.5 pts
- ▲ Employment Trends Index
  + 2.29 %
- ▲ Help Wanted OnLine
  + 1.7 %
- ▲ Leading Economic Index
  + 1.2 %
- ▲ Measure of CEO Confidence
  + 1.0 pts

Global Consumer Confidence Indicators

▼ Global	-14.0pts
▼ Asia-Pacific	-19.0pts
▼ Europe	-14.0pts

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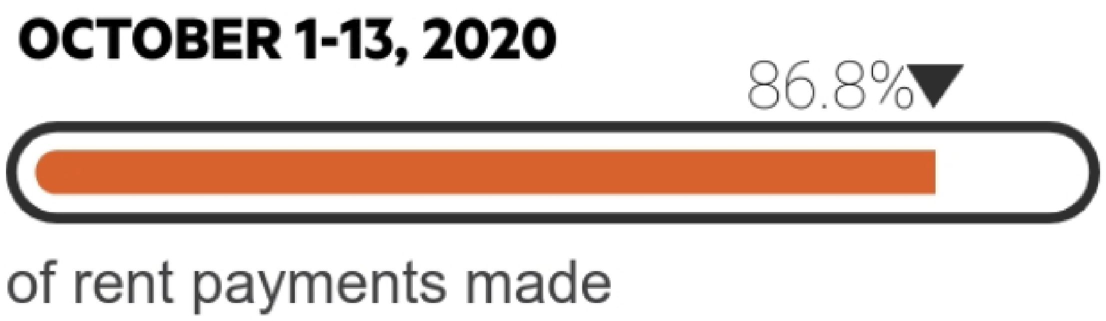
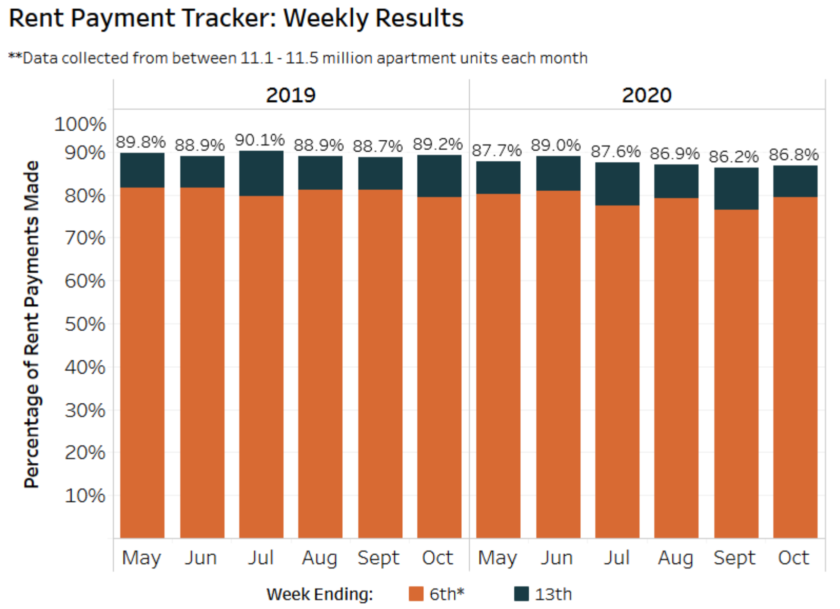
https://conference-board.org/data/consumerconfidence.cfm

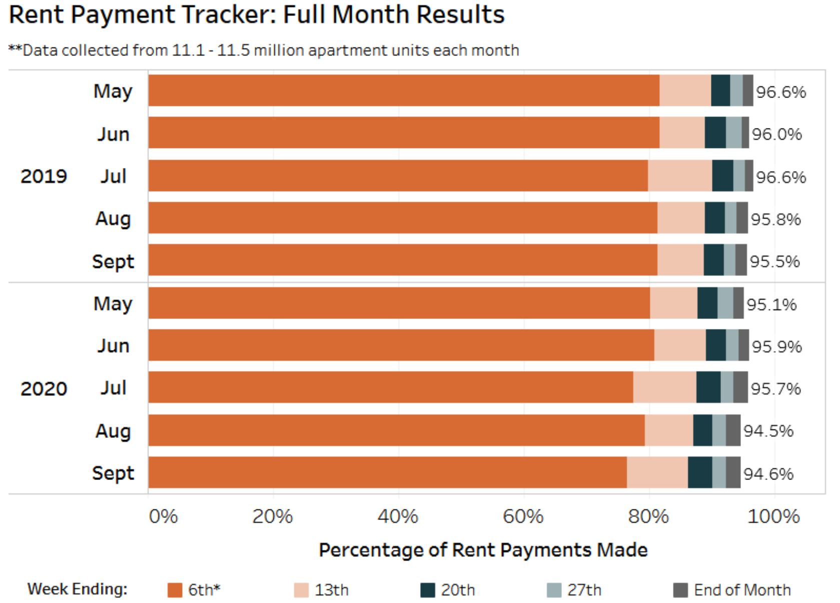
COVID-19 & MULTIFAMILY RENT COLLECTIONS

Updated: October 16, 2020, NMHC (weekly)

- Collections in professionally managed apartment households were **86.8%** through October 13
  - This is **+0.6%** above the same period in September 2020
  - This is **-2.4%** lower than for the same period in 2019
- Full month collections for September were 94.6%, down less than 1% from September 2019







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

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

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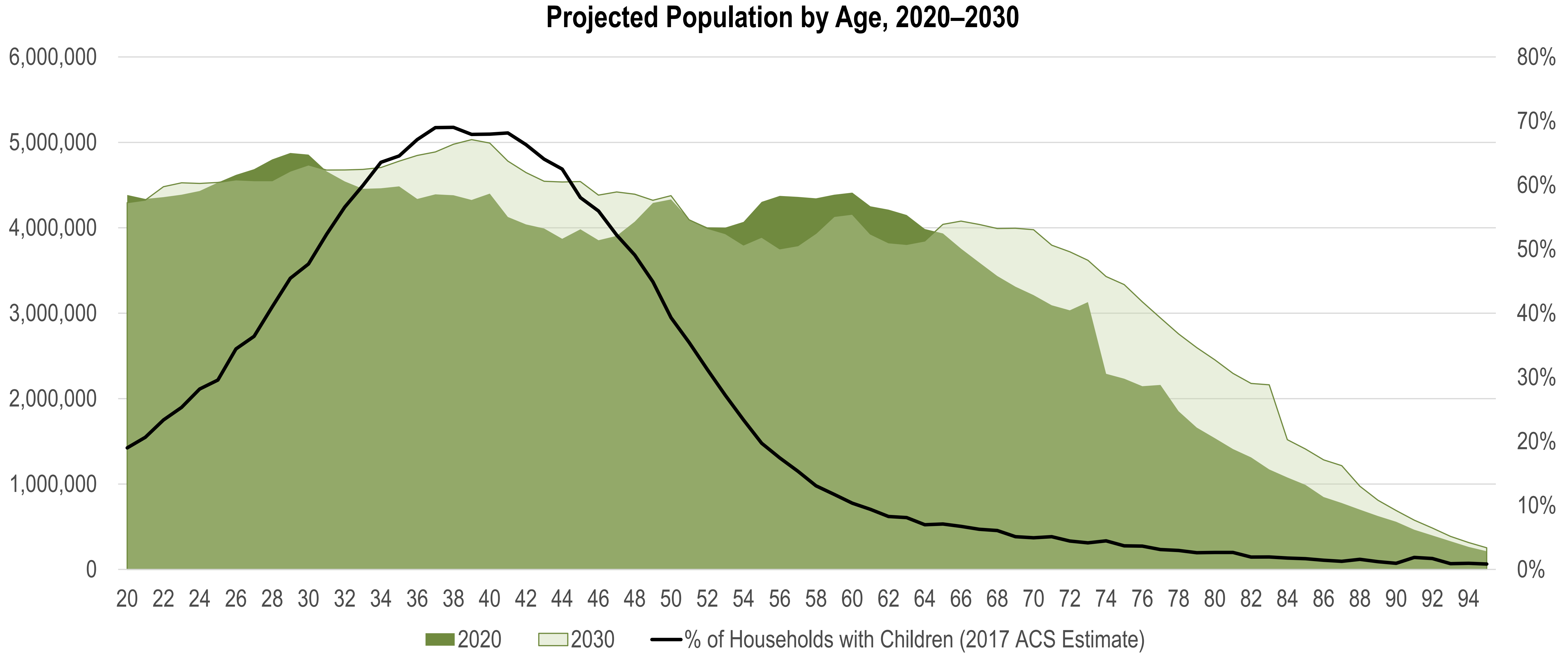
MYTH: PEOPLE ARE FLEEING DENSITY DUE TO COVID-19



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

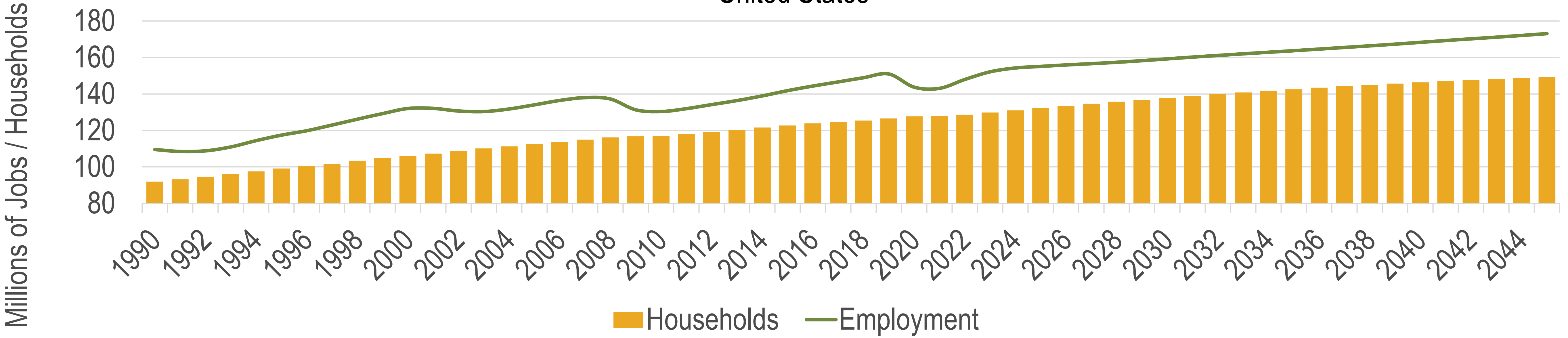
MULTI-FAMILY FUNDAMENTALS

THE CASE FOR RENTAL HOUSING

There are strong demographic and economic forces driving the demand for multifamily rental apartments

- Consistent household growth is projected to drive strong long-term demand for all types of housing
- Economic impacts resulting from the COVID-19 pandemic could create increased multifamily demand as the depletion of savings accounts and lingering economic uncertainty both put downward pressure on homeownership rates.
- Market sources indicate current property sale discounts range between 2.5% and 10, though a return to pre-COVID pricing is possible.

Historical and Forecasted Total Households and Employment; 1990-2050;
United States



Source U.S. Census Bureau, U.S. Bureau of Labor Statistics; Moody's Analytics; LendingTree

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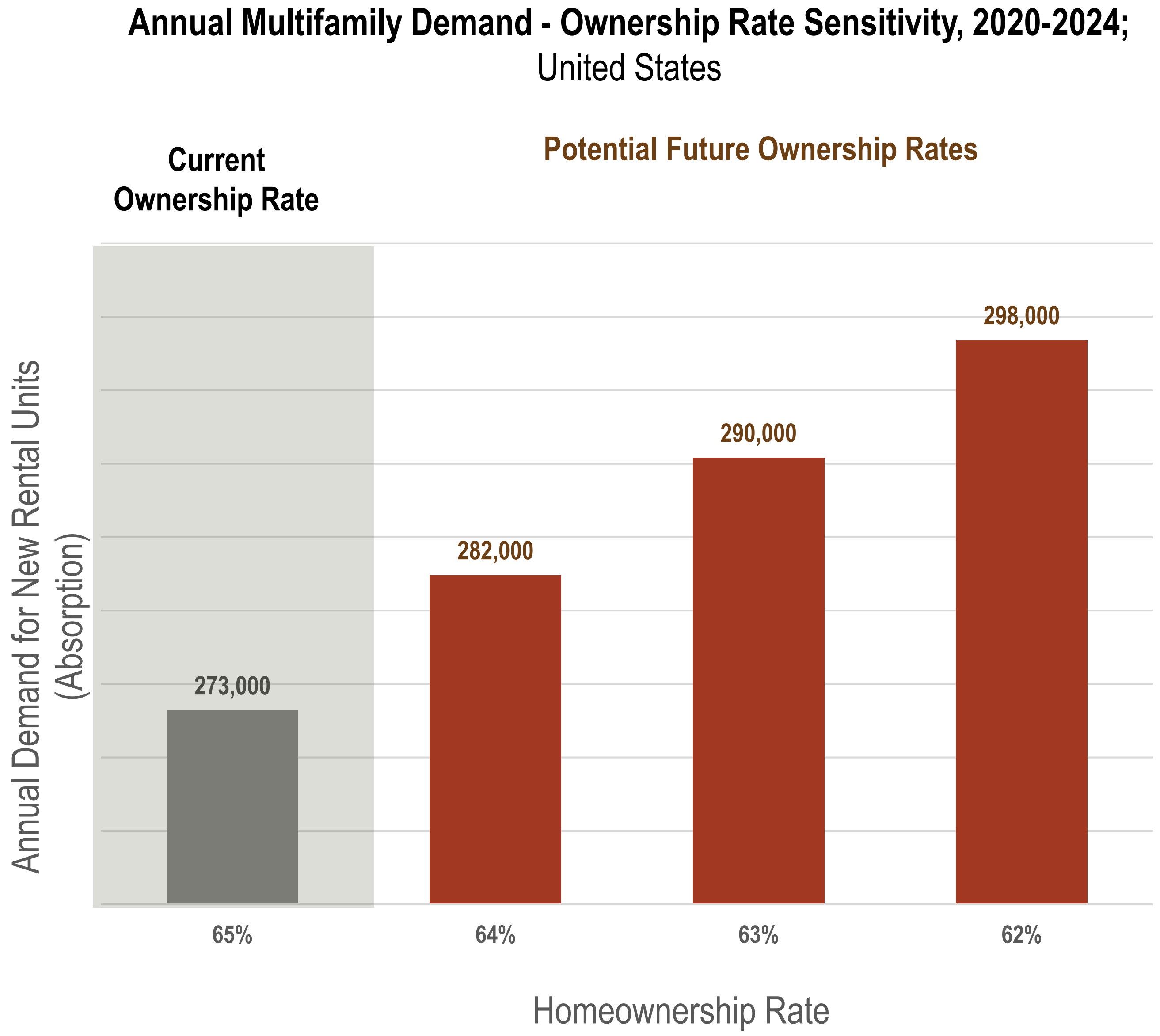
COVID-19 & RENTER PROPENSITY

If homeownership were to retreat to 2016 levels, there would be structural demand for an additional 170,000 new rental apartments in the U.S. above the baseline in the next 10 years.

- Using pre-COVID projections, structural demand for approximately 273,000 new institutional-grade multifamily rental units in the United States each year between 2020 and 2024.
- This demand increases by between 8,000 and 9,000 apartment units each year with each 1% decrease in the homeownership rate.
- If the homeownership rate retreated to the most recent low point of 63%, this would translate into the need for over 170,000 additional apartments above baseline for the next 10 years



Source: ESRI; U.S. Census Bureau; Moody's Analytics; RCLCO

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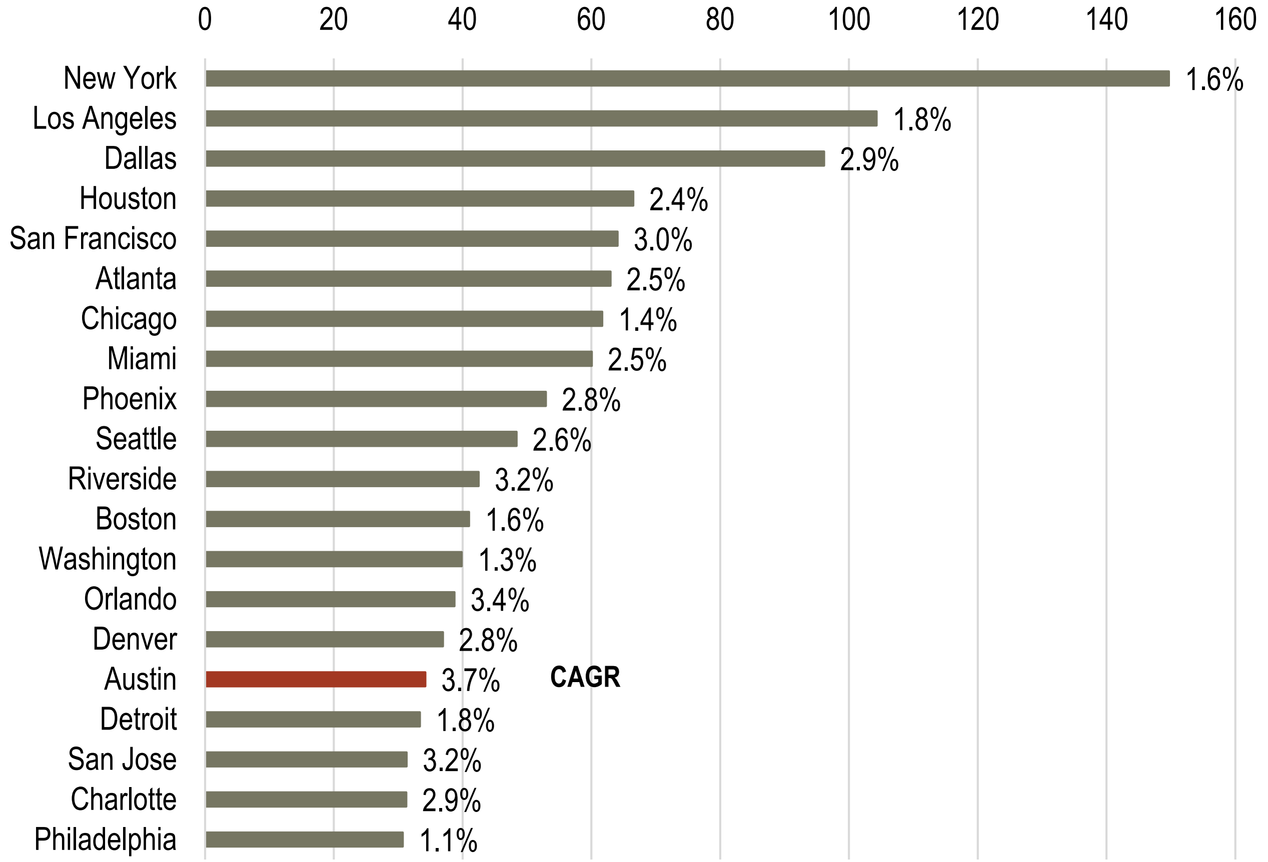
AUSTIN MARKET

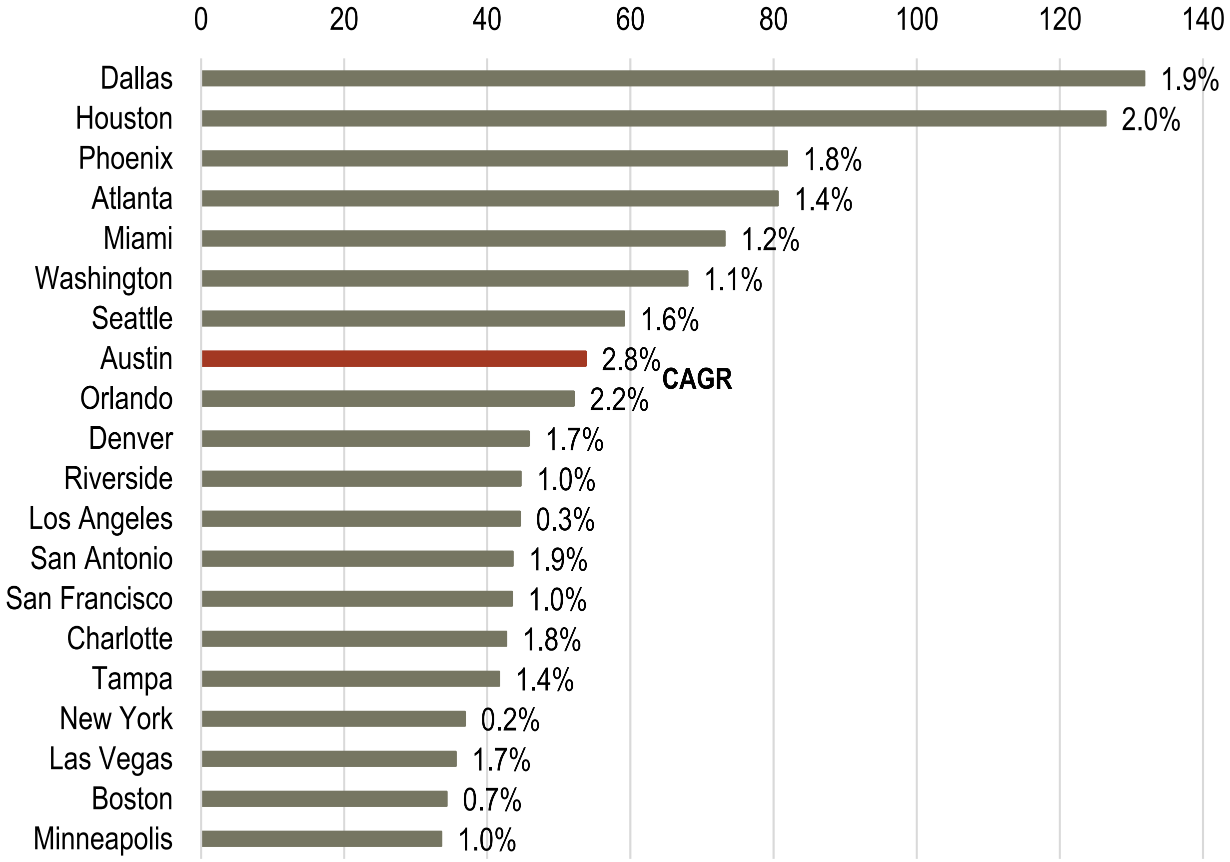
AUSTIN AMONG FASTEST GROWING MSA'S IN THE COUNTRY

- Austin is within the top 20 fastest growing MSAs in the United States in terms of absolute job growth, adding on average 34,000 jobs per year between 2010 and 2019, despite its relatively modest size compared to the peer metros on the list. In terms of absolute population growth, Austin's expansion has been even more pronounced, ranking as the eighth fastest growing MSA and adding 53,800 people per year during this period.
- The Austin metro recorded the fastest compounded annual growth rate (CAGR) of the top 20 MSAs for both employment and population growth over the past decade.

Average Annual Employment Growth (000s & CAGR), 2010-2019; Top 20 MSAs



Average Annual Population Growth (000s & CAGR), 2010-2019; Top 20 MSAs

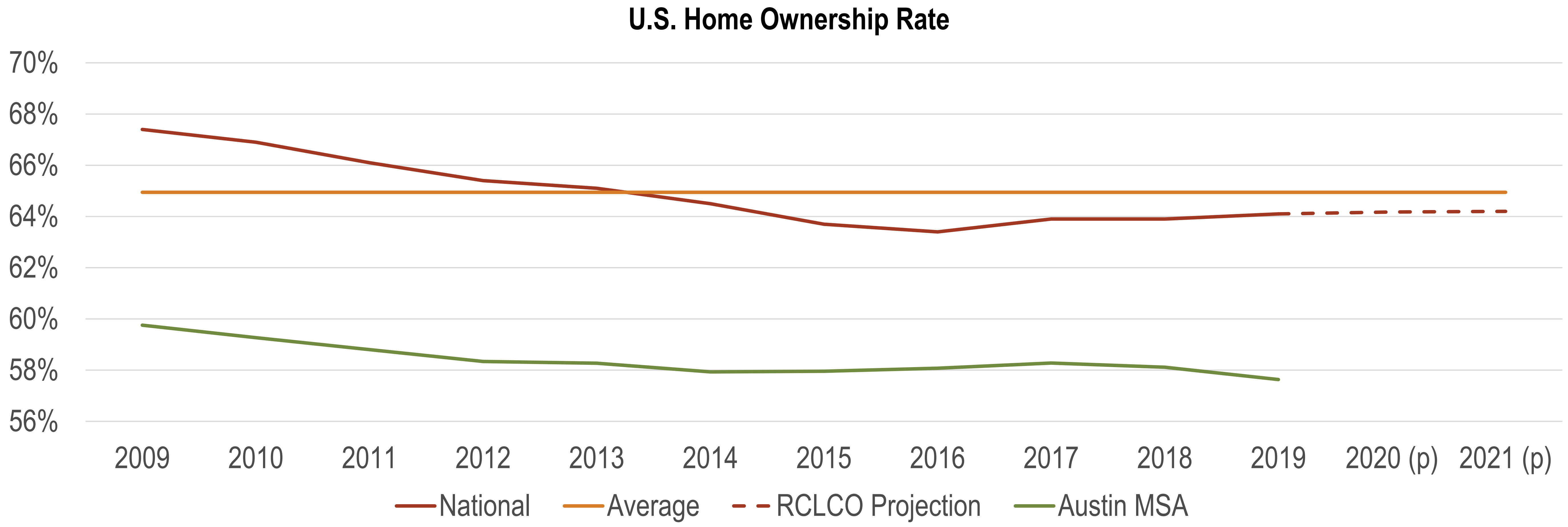


Note: Bars on chart represent absolute growth, while data labels represent the compounding annual growth rate during the same time period.

Source: Moody's; RCLCO

HOUSING TENURE

Declining homeownership rates have been among the largest tailwinds for rental communities in the last decade; Austin msa is below national average



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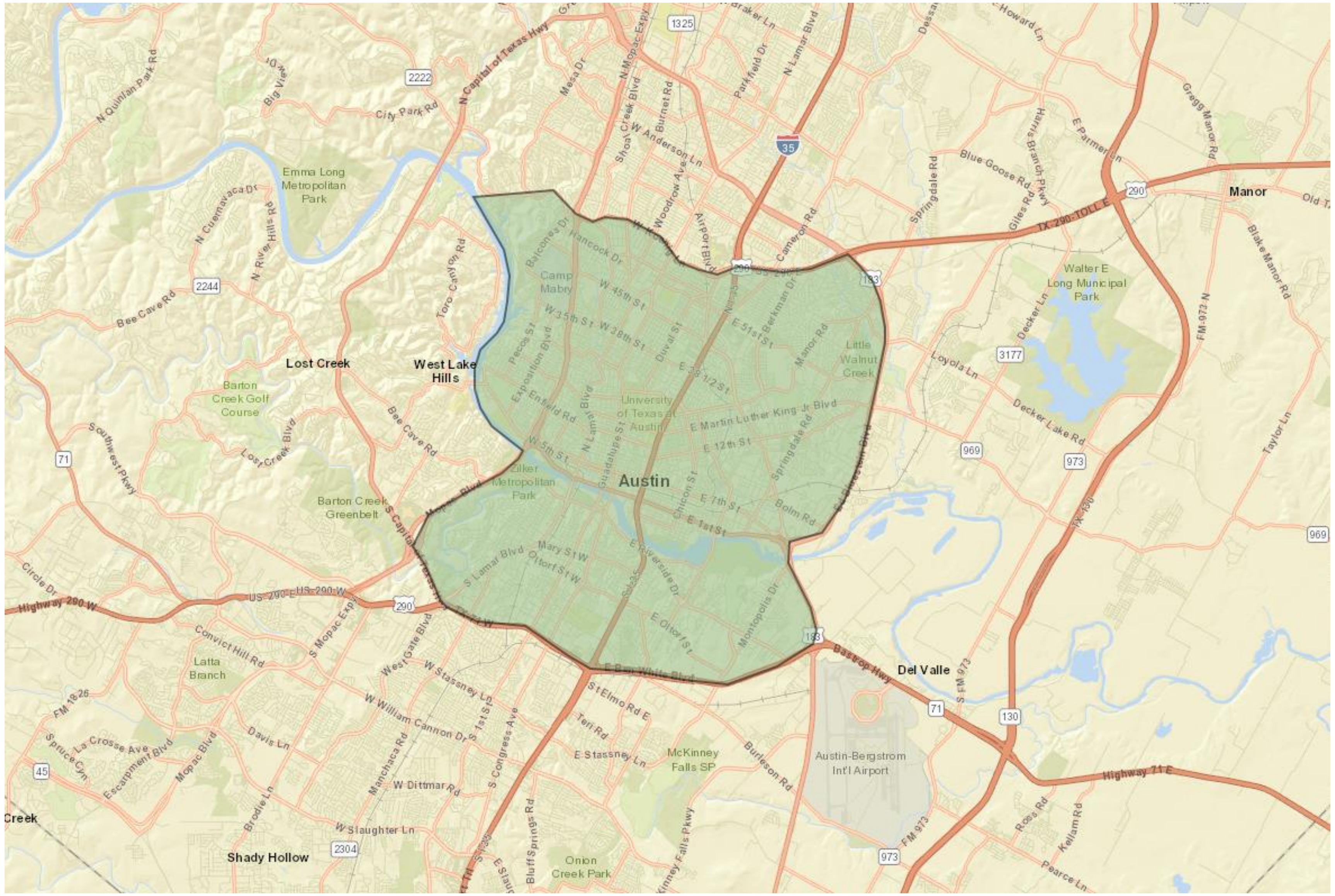
CENTRAL AUSTIN

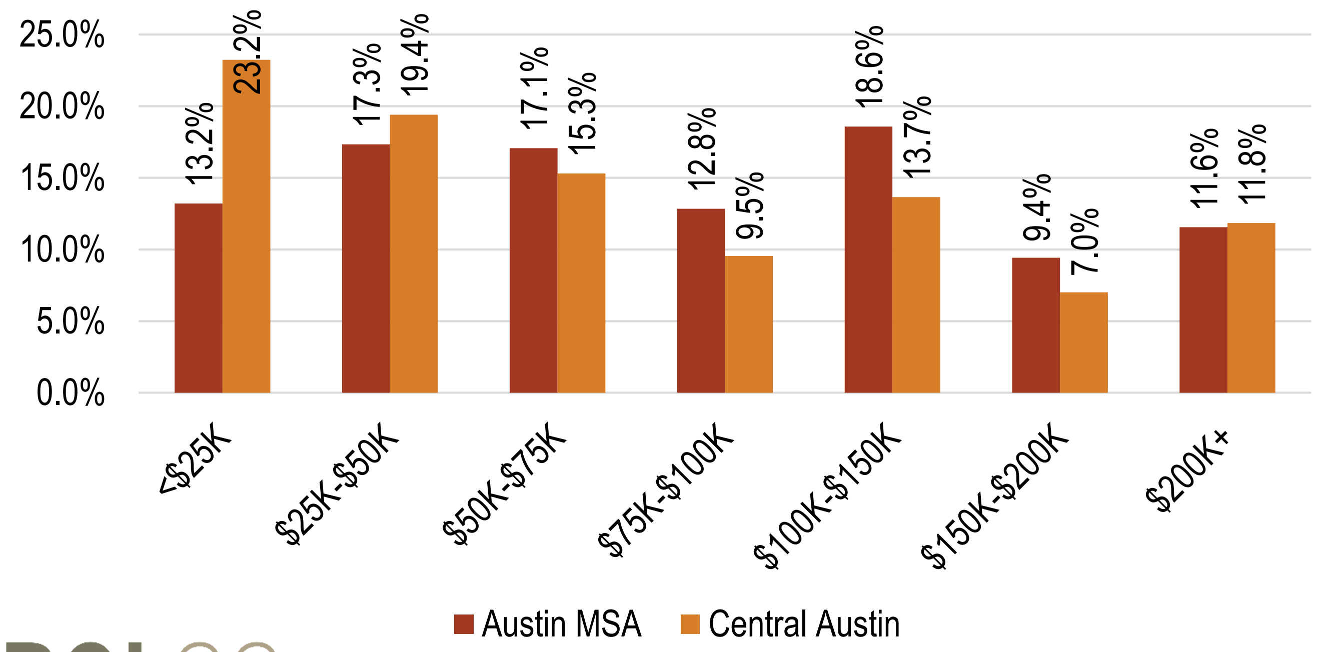


ECONOMICS & DEMOGRAPHICS

Compared to the broader region, households in Central Austin are younger, more likely to rent, and are typified by smaller households

- Central Austin attracts young singles and couples, seeking an urban lifestyle with direct access to Austin's entertainment and employment nodes. Households under the age of 35 make up a considerable portion of Central Austin, comprising 42% of total households.
- There is a significant difference in homeownership rates between Central Austin and the Austin MSA – 60% of MSA households own their homes, while only 33% of Central Austin households are owners.

Household Distribution by Income
Austin MSA and Central Austin; 2020



Central Austin Capture of Austin MSA Households by Age & Income Range
Central Austin; 2020

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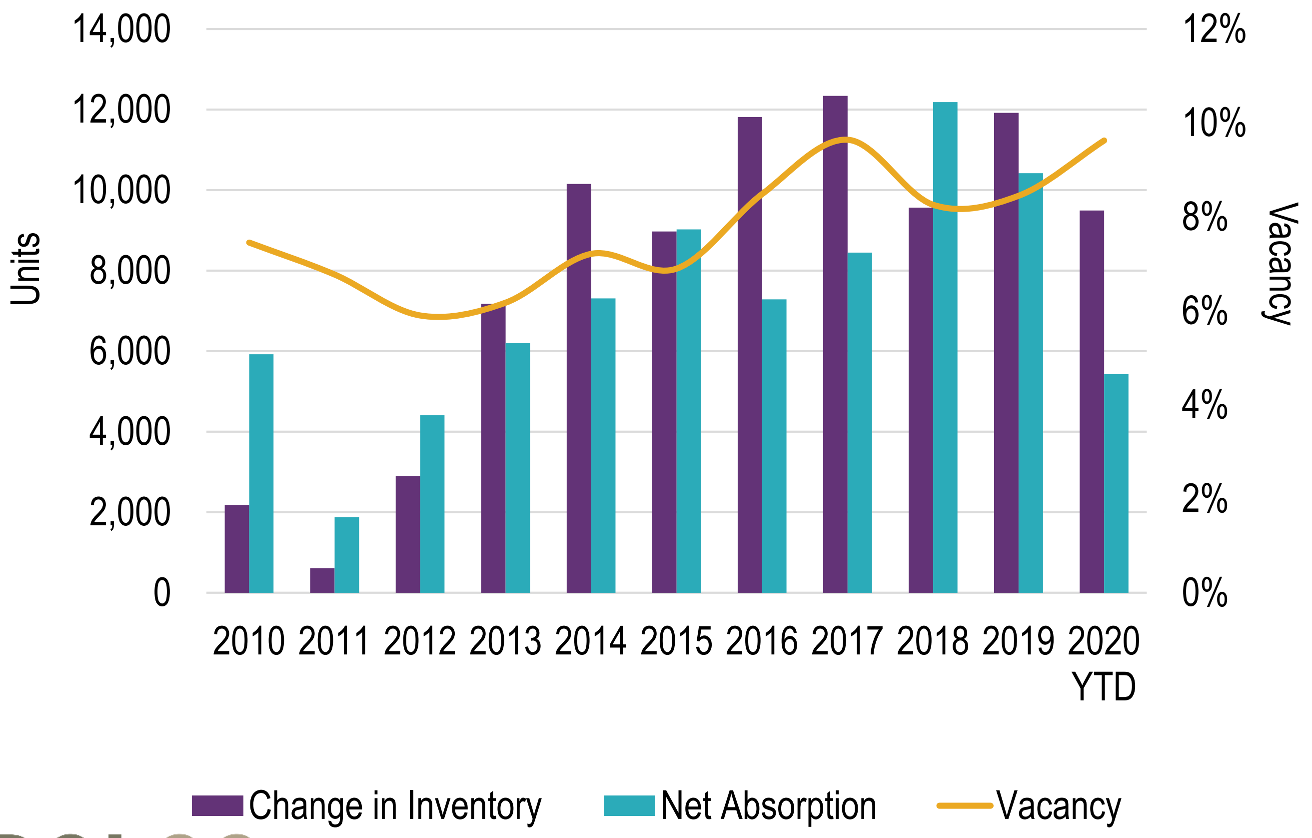
Source: Esri; U.S. Census Bureau; RCLCO

COVID-19 IMPACT ON LOCAL APARTMENTS

- Since 2013, rental inventory has grown substantially, moderating slightly in 2018. While annual absorption has been strong, averaging approximately 2,100 annual units since 2013, significant deliveries in 2019 (nearly 3,000 units) led to softening in the market prior to the Covid-19 pandemic and related economic downturn.
- Despite modest deliveries in so far in 2020, Central Austin demonstrated negative net absorption, leading to increased vacancies.

Apartment Absorption, Deliveries, & Vacancy
Austin MSA; 2010-October 2020



Apartment Absorption, Deliveries, & Vacancy
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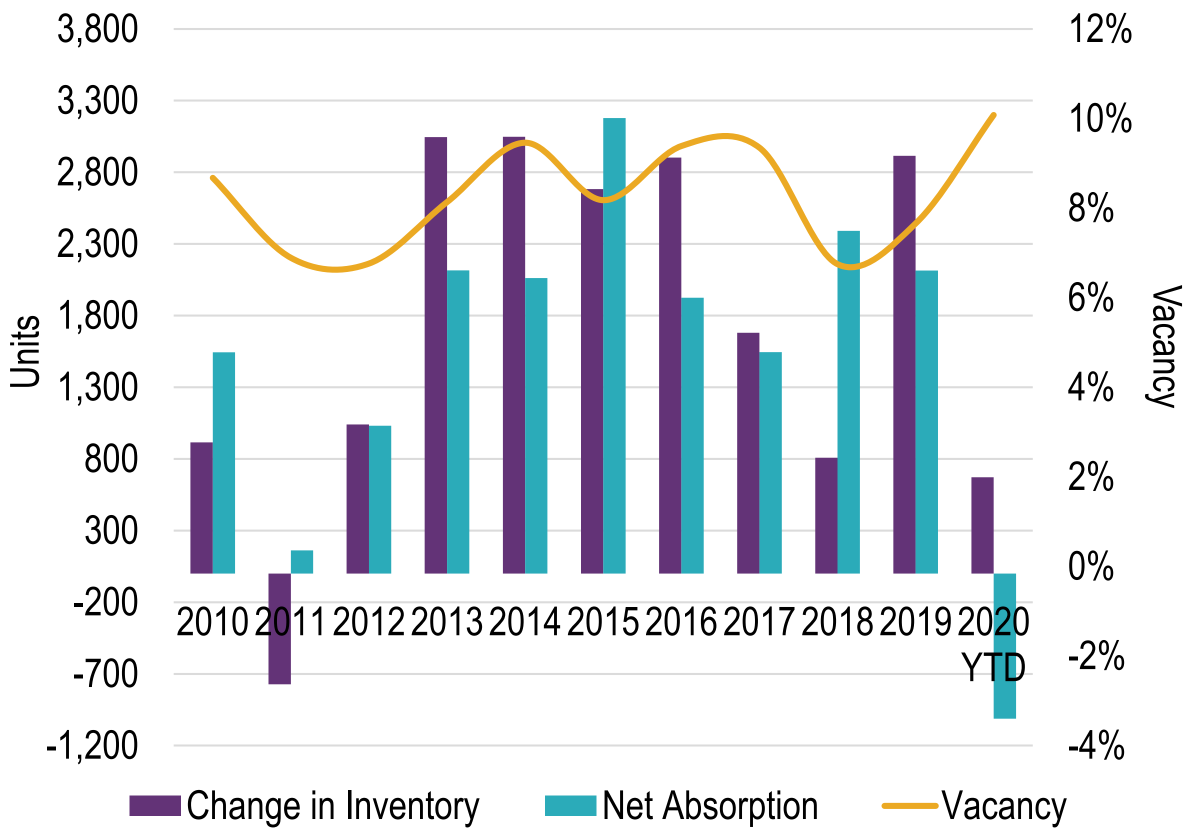

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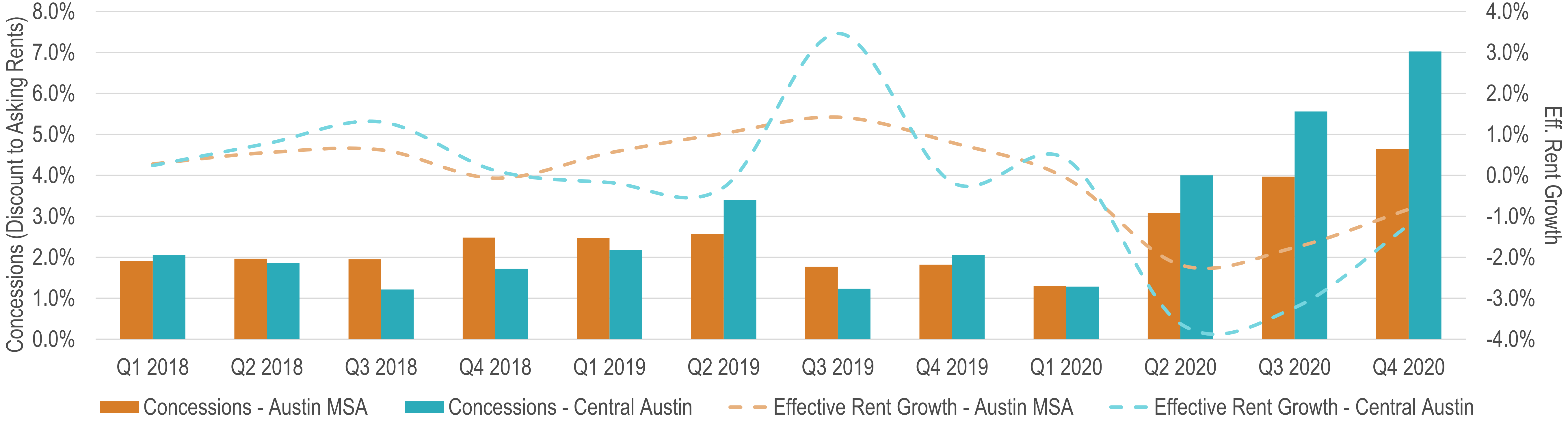
Source: CoStar; Axiometrics; RCLCO

COVID-19 IMPACT ON LOCAL APARTMENTS

- Concessions at new communities have increased during COVID (Q2-Q4 2020), with Central Austin communities typically offering between 5.6%-7% average discount (equivalent to 3-4 weeks free); new communities are offering nearly 2X the average historical discount
- Though effective rent growth was already stagnant/declining pre-COVID due to the recent supply influx, current rent growth in both Central Austin and the Austin MSA are negative following the COVID-19 outbreak.

Newly Built (2018+) Apartment Concessions & Rent Growth

Austin MSA & Central Austin; Q1 2018-Q4 2020



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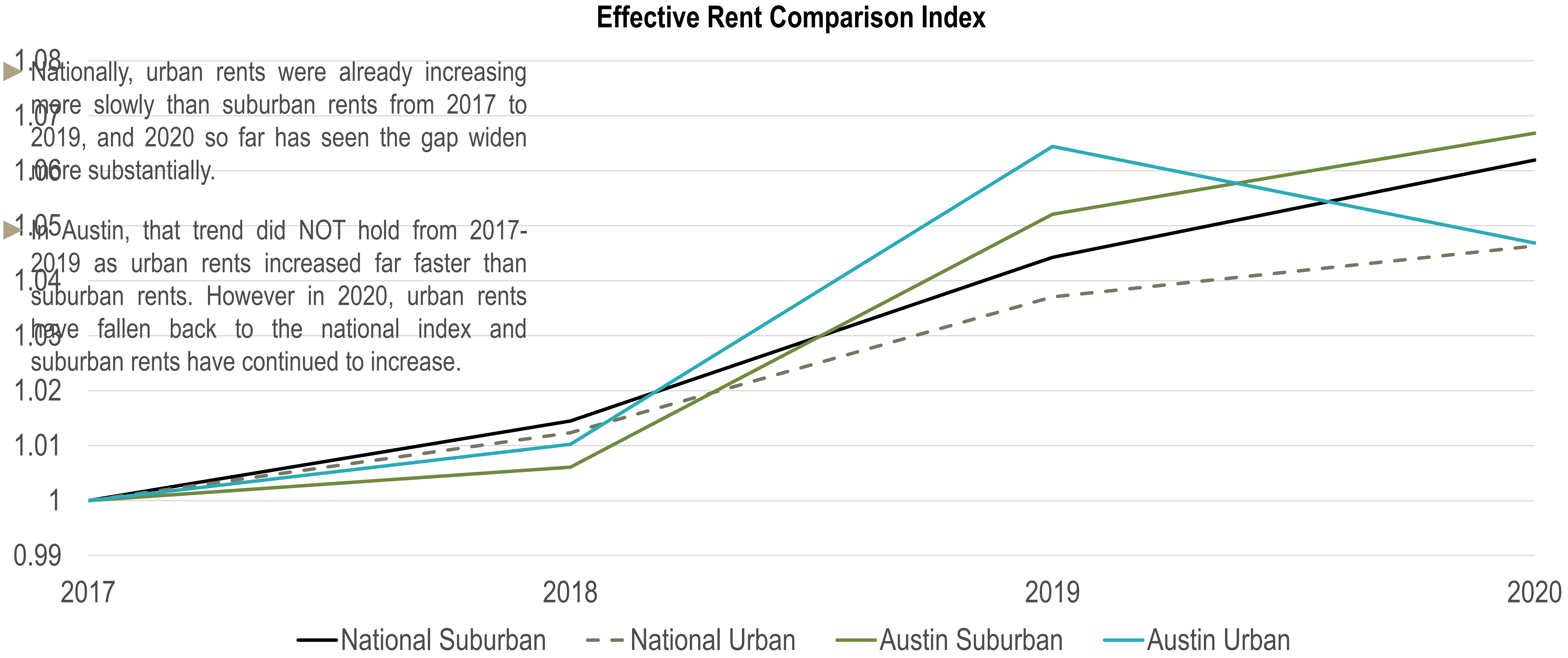
Source: CoStar; RCLCO

EFFECTIVE RENT TRENDS – URBAN VS. SUBURBAN

- Nationally, urban rents were already increasing more slowly than suburban rents from 2017 to 2019, and 2020 so far has seen the gap widen more substantially.
- In Austin, that trend did NOT hold from 2017-2019 as urban rents increased far faster than suburban rents. However in 2020, urban rents have fallen back to the national index and suburban rents have continued to increase.



Source: Axiometrics; RCLCO

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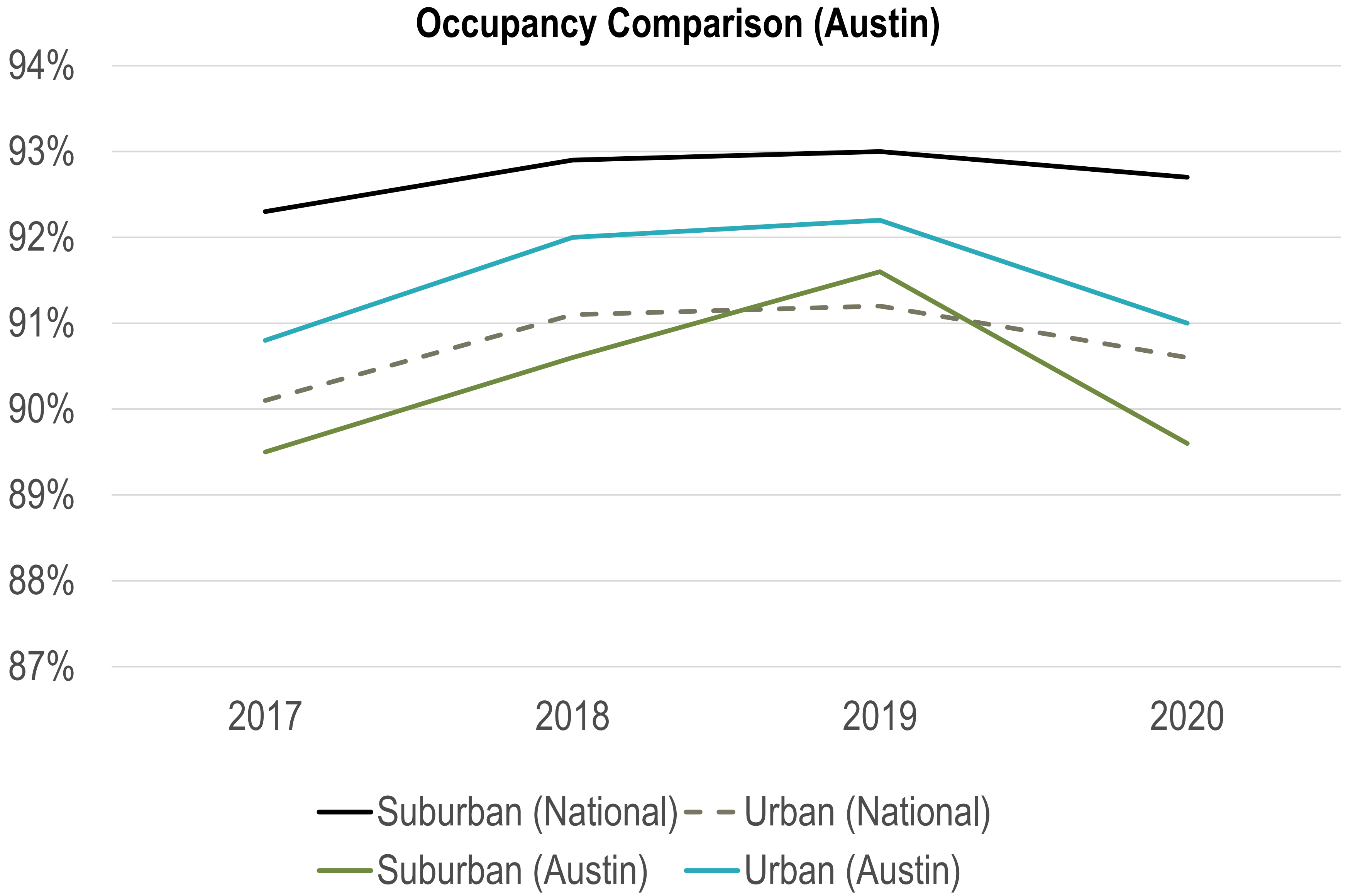
OCCUPANCY TRENDS – URBAN VS. SUBURBAN

- Nationally, suburban occupancies have been consistently higher than urban occupancies, though both areas improved their occupancy rates from 2017 to 2019. In 2020, both areas have seen similar moderate occupancy declines.
- In Austin, urban and suburban occupancies were growing faster than the national trends from 2017-2019, though actual occupancies were stronger in urban areas than suburban areas (reverse of national).
- In 2020, both have declined, though with a steeper drop off in suburban areas.



Source: Axiometrics; RCLCO

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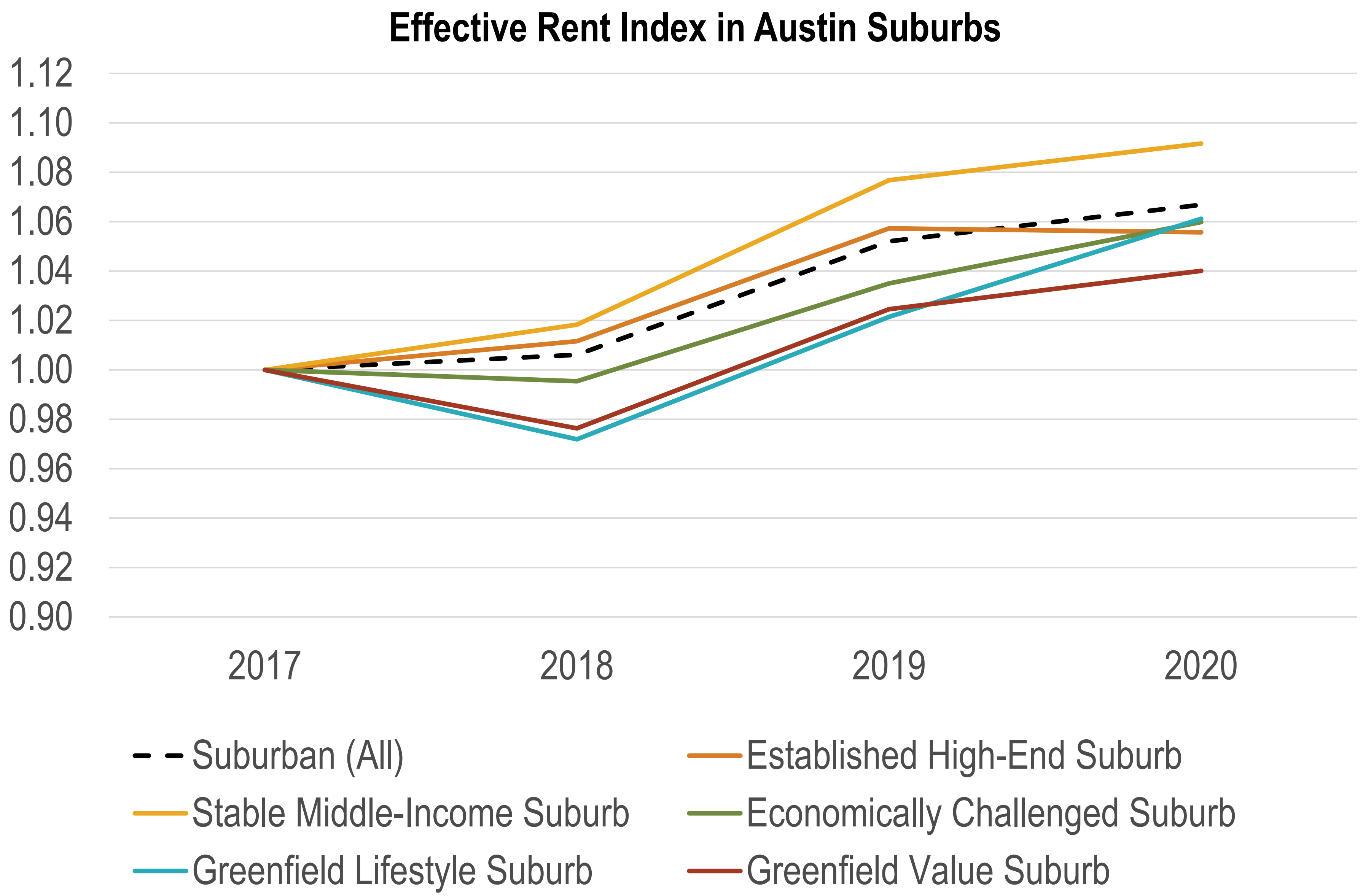
EFFECTIVE RENTS – SUBURBAN NEIGHBORHOOD TYPES

- Areas that maintained the strongest average rents are the ones that have the most renters by necessity – stable and economically challenged suburbs
- Greenfield lifestyle suburbs demonstrated strong upward growth despite having underperformed from 2017-2019



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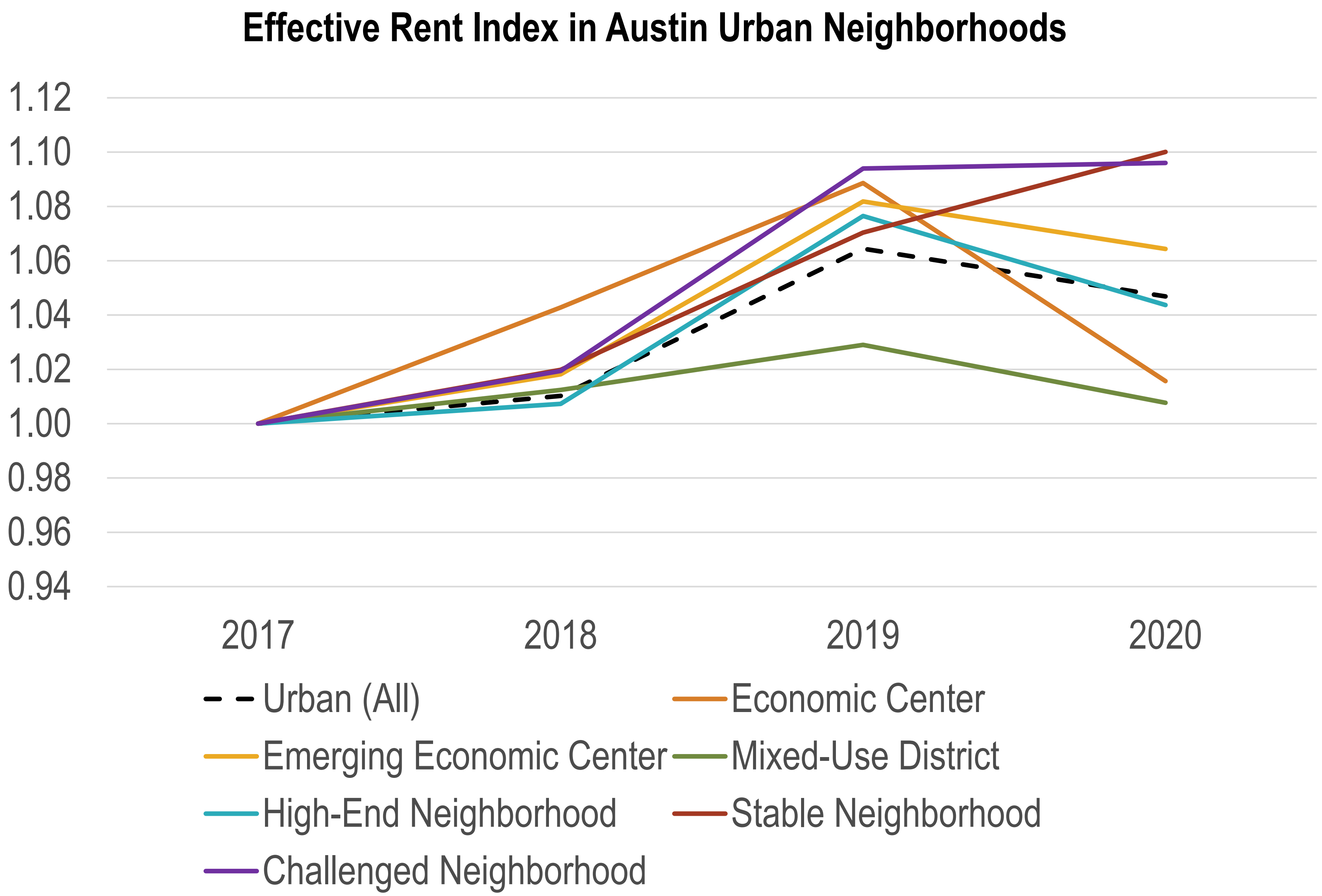
Source: Axiometrics; RCLCO

EFFECTIVE RENTS – URBAN NEIGHBORHOOD TYPES

- Areas that maintained the strongest average rents are the ones that have the most renters by necessity – stable and challenged urban neighborhoods.
- Economic centers saw the greatest rent declines in 2020.



Source: Axiometrics; RCLCO

CAPITAL MARKETS – CAP RATES DECLINE, SALES VOLUME DROPS

TOP BUYERS

Past 24 Months

RANK	BUYER	LOCATION	ACQUISITIONS ($)	PROPERTIES (#)	AVG PRICE ($)
1	Tricon	Toronto, Ontario	294,585,182	4	73,646,295
2	SPI Advisory	Dallas, TX	250,801,696	4	62,700,424
3	CWS Capital Prtn	Newport Bch, CA	211,310,613	4	52,827,653
4	BSR Trust	Little Rock, AR	210,999,990	4	52,749,997
5	Ascenda Capital	Los Angeles, CA	164,976,638	2	82,488,319

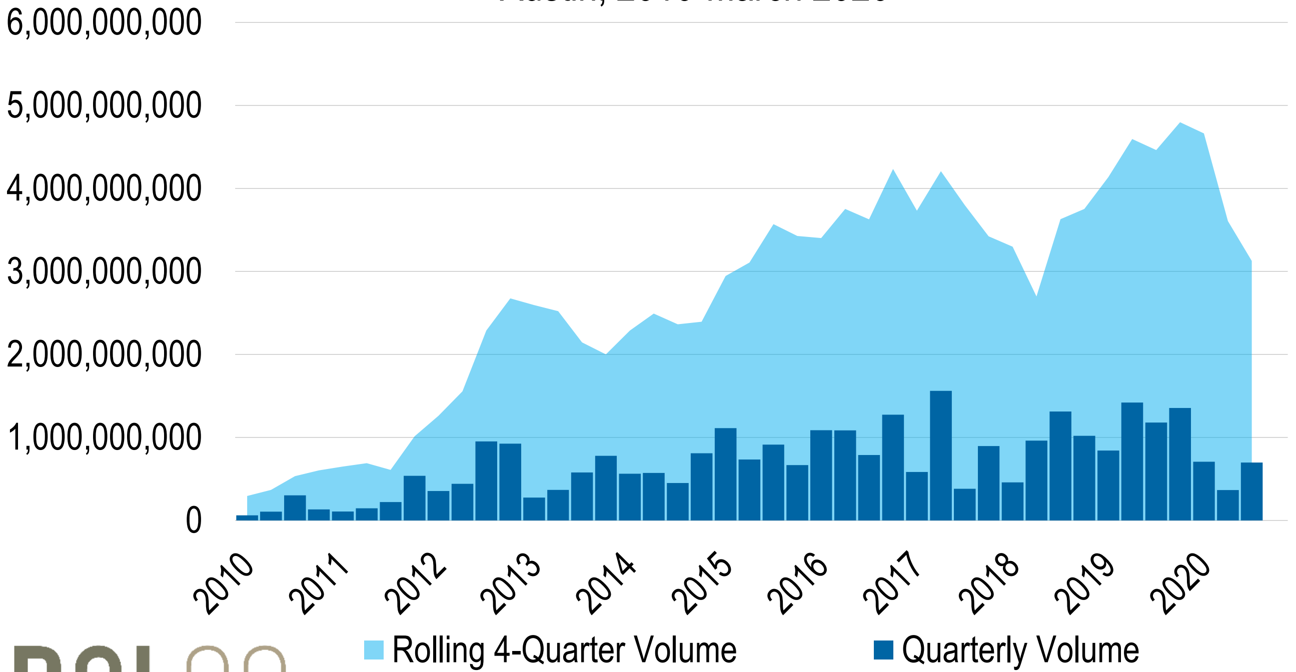
TOP SELLERS

Past 24 Months

RANK	SELLER	LOCATION	DISPOSITIONS ($)	PROPERTIES (#)	AVG PRICE ($)
1	Starlight Investments	Toronto, Ontario	398,985,171	6	66,497,529
2	Dinerstein Cos	Houston, TX	249,400,000	2	124,700,000
3	B&M Management	Montgomery, AL	218,860,965	2	109,430,483
4	Presidium Group	Dallas, TX	180,642,320	3	60,214,107
5	Castle Lanterra	Suffern, NY	167,500,000	3	55,833,333

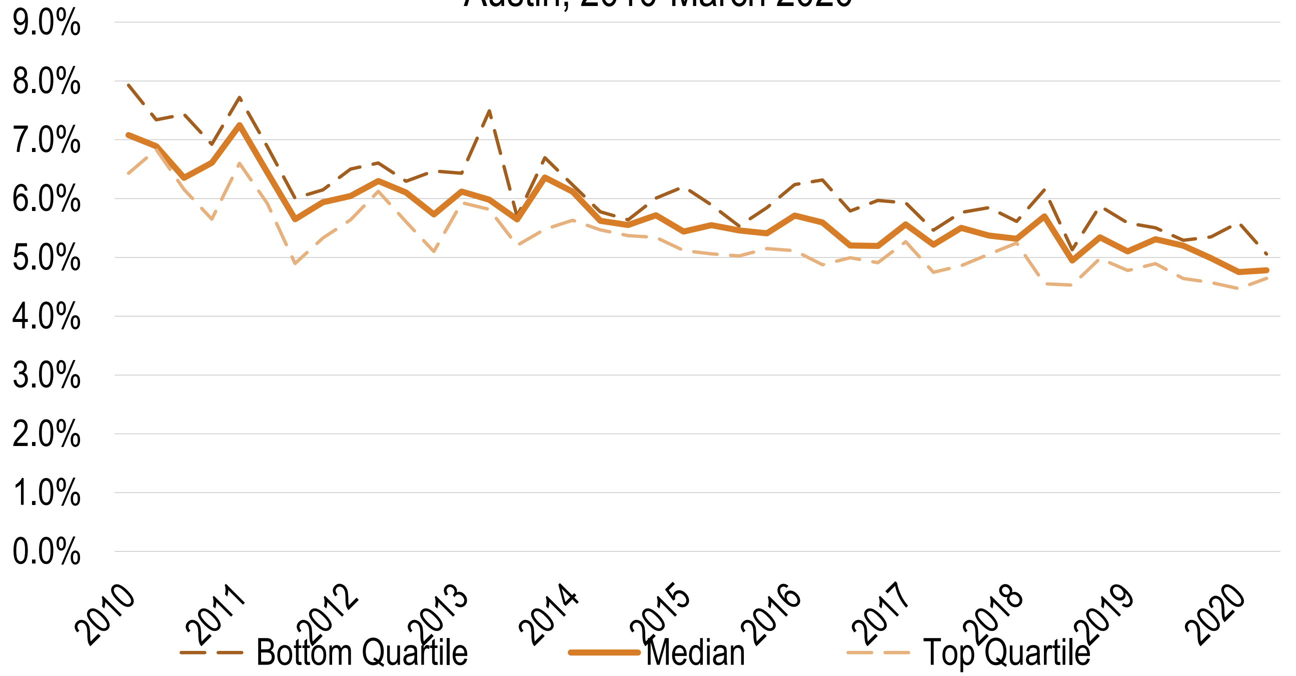
Sales Volume ($)

Austin; 2010-March 2020



Cap Rate Yields

Austin; 2010-March 2020



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Source: Real Capital Analytics

SINGLE-FAMILY RENTAL

CASE STUDY: AUSTIN

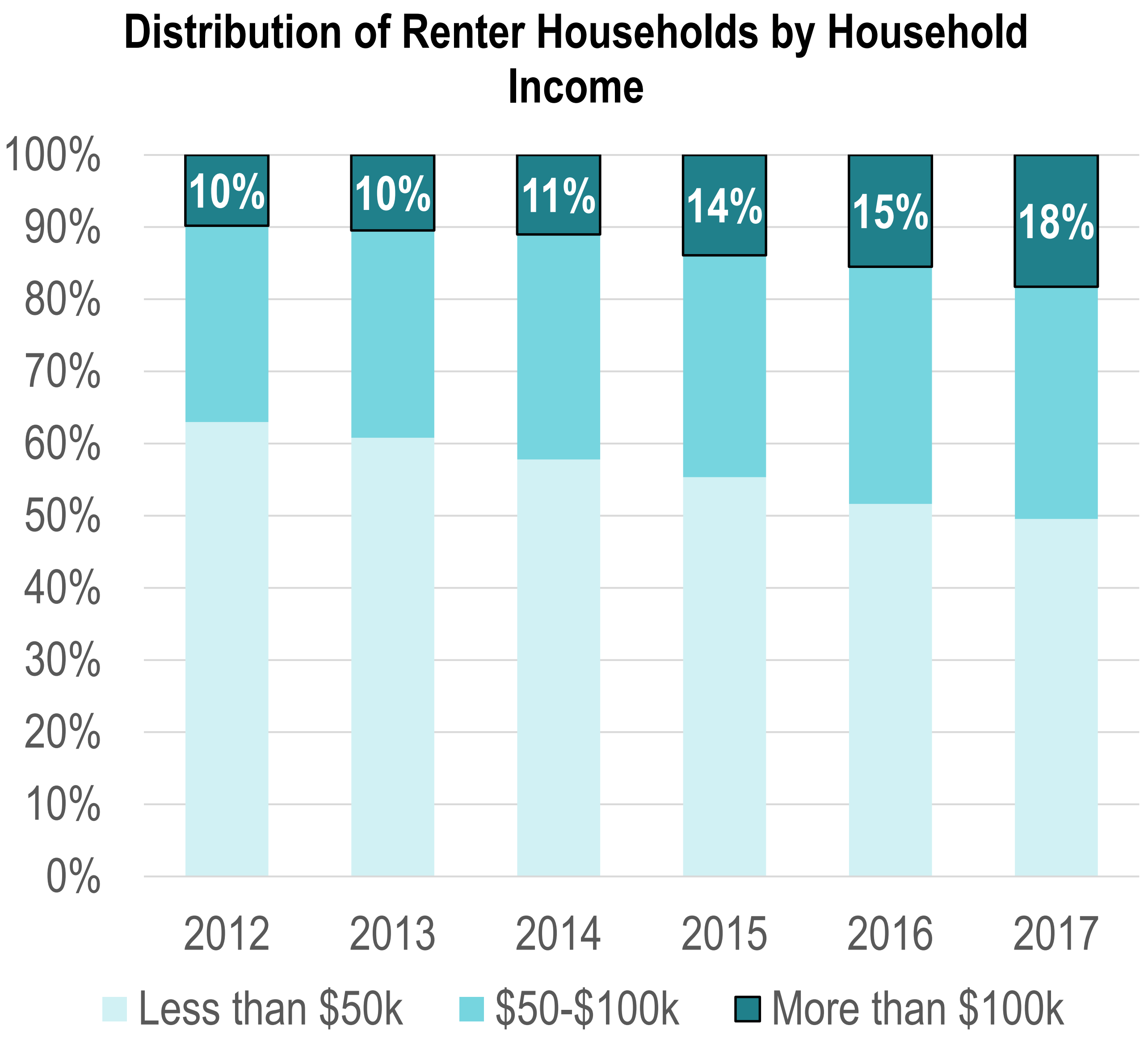
RENTING BY CHOICE / DISCRETIONARY RENTERS

More affluent renters are turning to rental product for the lifestyle & convenience

- Nearly 20% of renter households earn over $100,000 in the Austin MSA

Reasons for Renting

- Low maintenance, lock-and-leave living
- Amenitized environment
- Transitional life stage / uncertain future plans
- Cannot yet afford a down payment (young professionals)



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RENTING OUT OF NECESSITY (FAMILIES $50K-$100K)

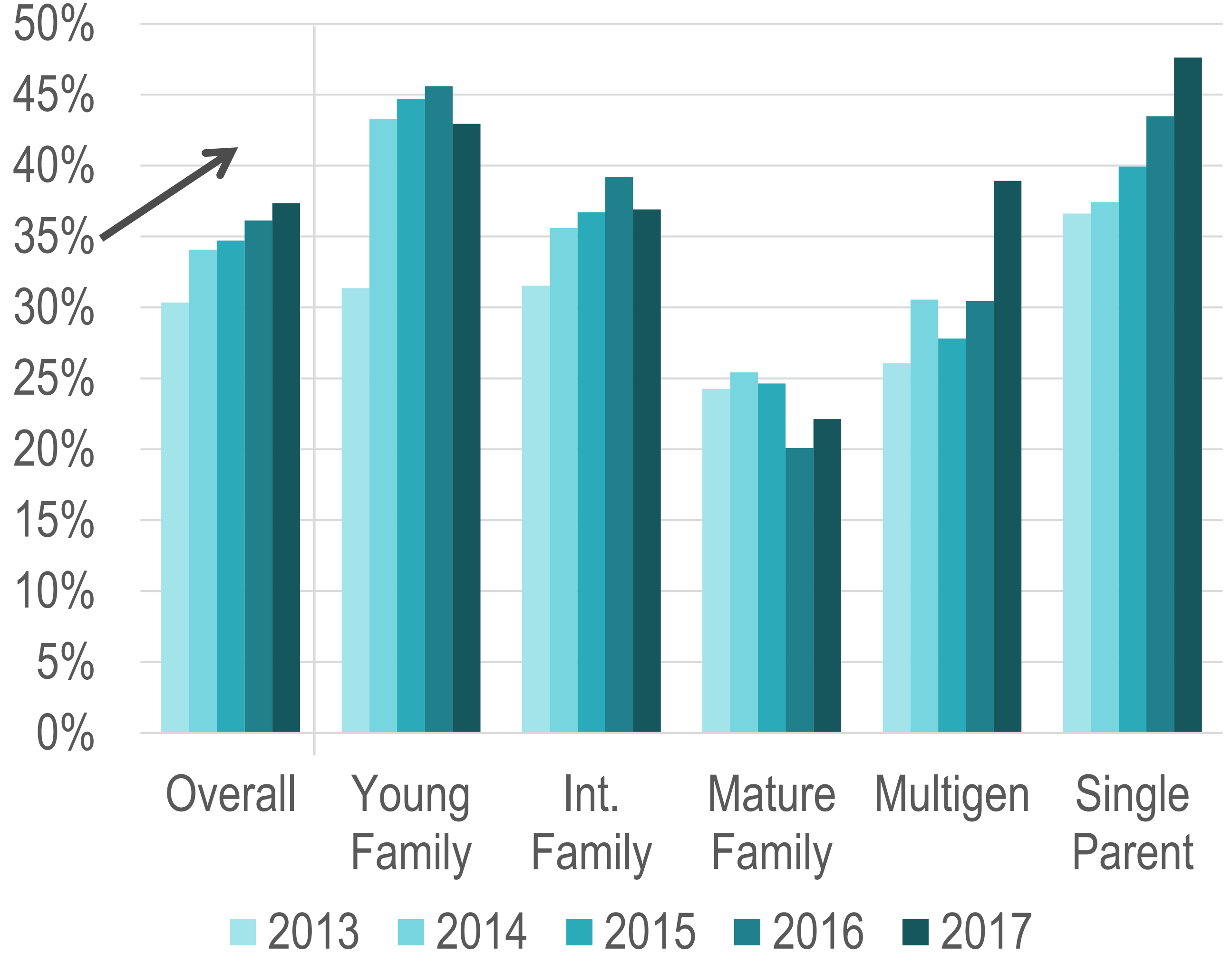
As home prices continue to rise, a growing share of family households with moderate incomes are renting

- Families with these incomes represent 1/3 of all family households in the Austin MSA

Reasons for Renting

- Limited new, for-sale housing options below $350k
- Do not have the savings for a down payment
- Cannot afford a home in the desired school district or area of choice
- Lack of smaller, low maintenance for-sale housing options (single parent)

Renter Propensity of Family Households Earning $50,000 to $100,000



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Note: Data represents trailing 24 month average

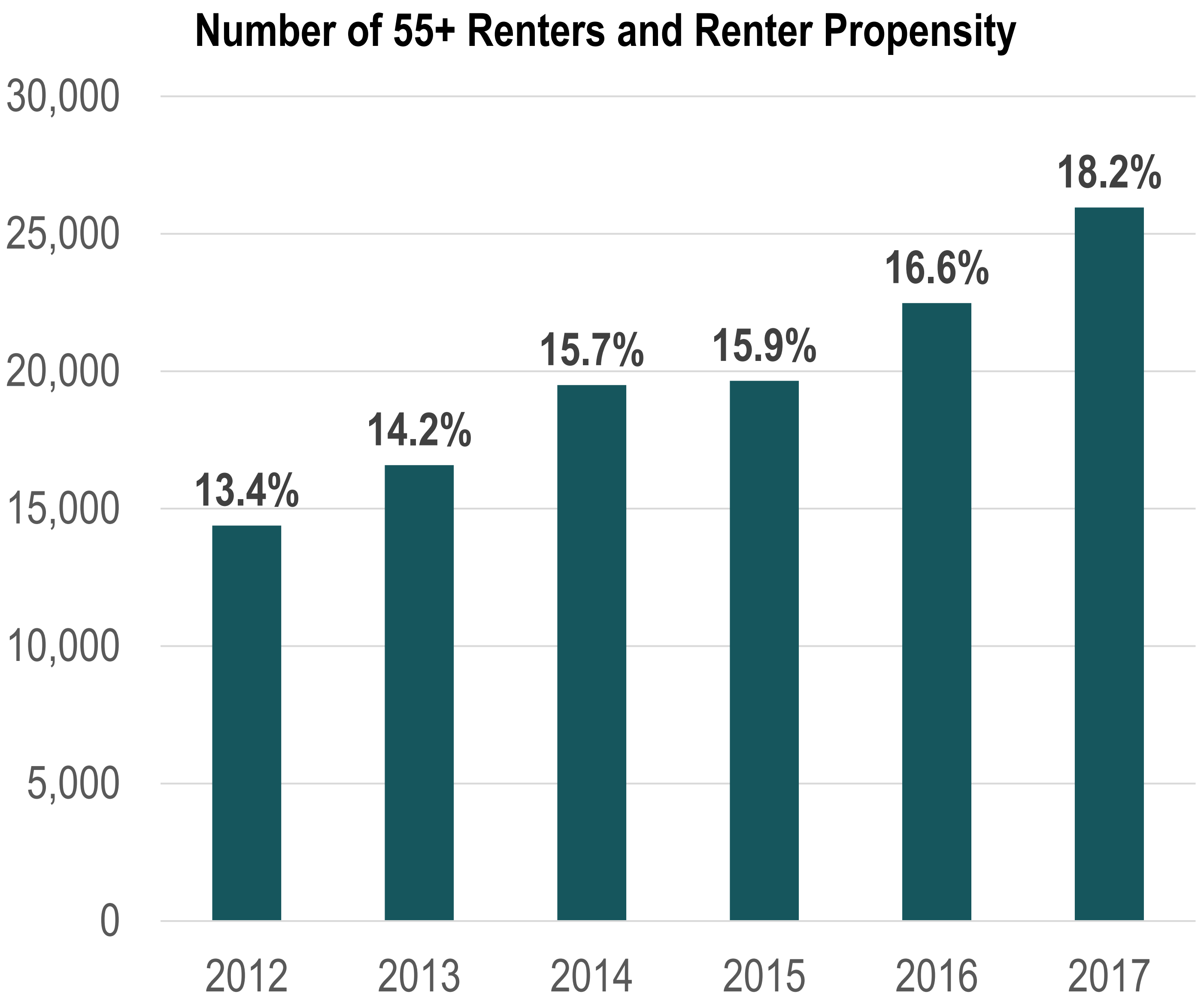
DOWNSIZING EMPTY NESTERS

55+ households represent ~ ¼ of all Austin MSA households & growing

- Growing number of households over the age of 55 that are choosing to downsize & rent

Reasons for Renting

- Family home is too large, looking to downsize
- Seeking to unlock equity from the family home
- Convenience of low maintenance living
- Social connectedness of rental housing



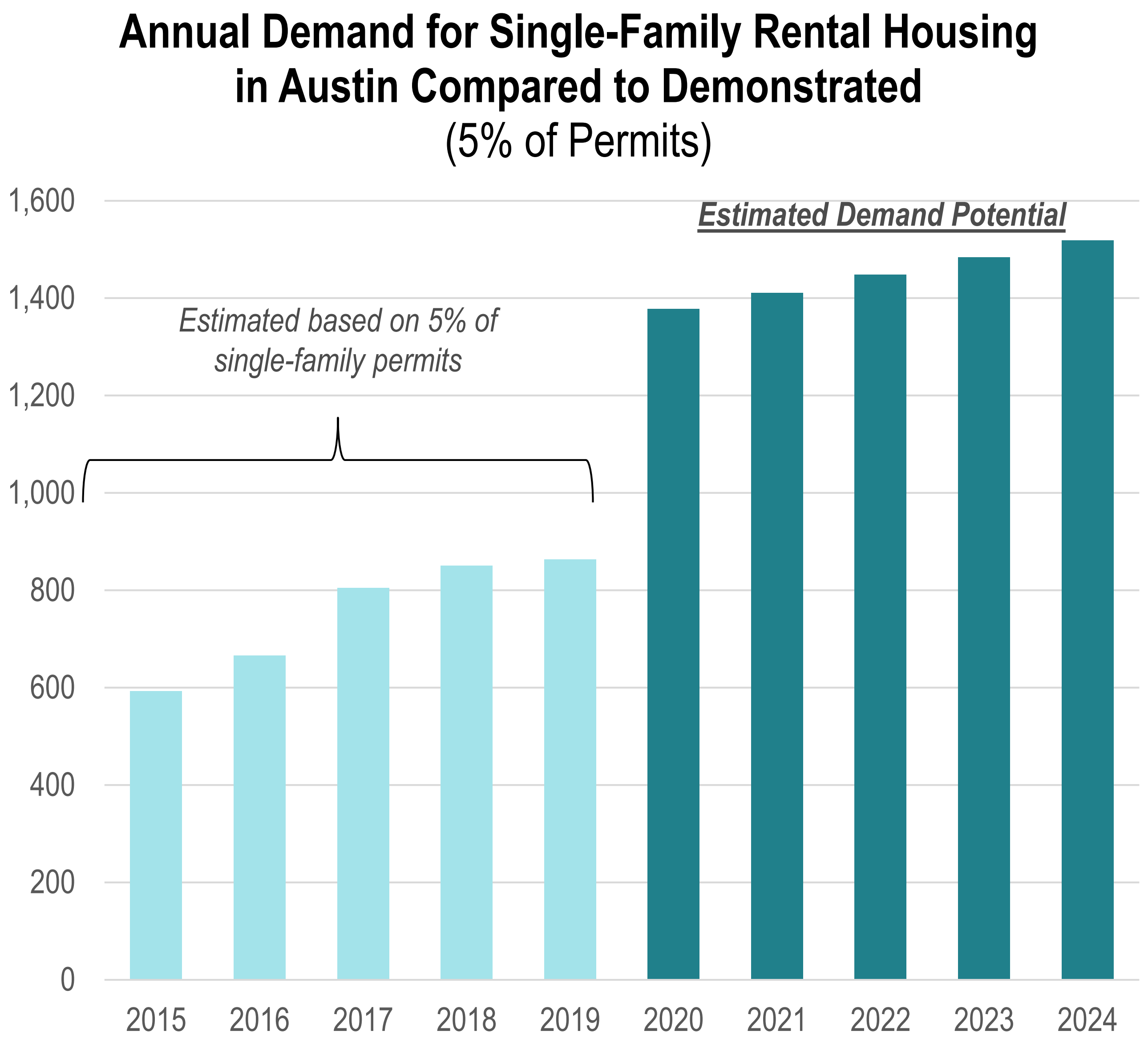
Note: Includes renter households over the age of 55 and earning more than $35,000, annually

DEMAND POTENTIAL

- Excluding existing pent up demand, RCLCO estimates annual average demand for more than 1,400 units

Projected demand far exceeds estimated new units over the past five years

- Strong projected growth among key, unconventional renter household segments
- Limited single-family rentals over the past 10 years
  - Over 90% of new rental product concentrated in large-scale multifamily projects
- Potential pent up demand, especially among empty nesters



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EVOLVING PRODUCT LANDSCAPE

Product Type	Picture	Neighborhood Location	Development Strategy	Key Examples & Geographic Focus
Suburban SFD (MPC-Style)		Greenfield Lifestyle Suburb Greenfield Value Suburb	Provide traditional single family product in outlying suburbs or in MPCs. located in areas with good school districts, proximate to other single family housing.	**AHV Communities** Sun Belt Markets
Single-Story Apartment-Style (also referred to as horizontal apartment)		Economically Challenged Suburb Middle-Income Suburb	Alternative to multifamily apartments, providing additional privacy and space at a similar price point	**NexMetro, Christopher Todd, Bungalows** Sun Belt & Rocky Mountain Region
Suburban SFA		Greenfield Lifestyle Suburb Middle-Income Suburb	Provide smaller, lower-priced single family product in outlying suburbs or in MPCs.	**BB Living** Sun Belt Markets
Urban/Suburban Infill SFA or Small-Lot SFD		Stable Urban Neighborhood Stable Suburb	Located in in-town locations just outside of the urban core offering high-quality product for lifestyle renters	**RedPeak Platt Park Townhomes** National
Urban Rowhome/SFA		Emerging Economic Center High End Urban & Suburban	Located in urban core locations, likely in markets where high-density construction isn't feasible	National

Source: Google Images; RCLCO

SINGLE-FAMILY RENTAL
DEMAND DRIVERS AND SUPPLY CONDITIONS

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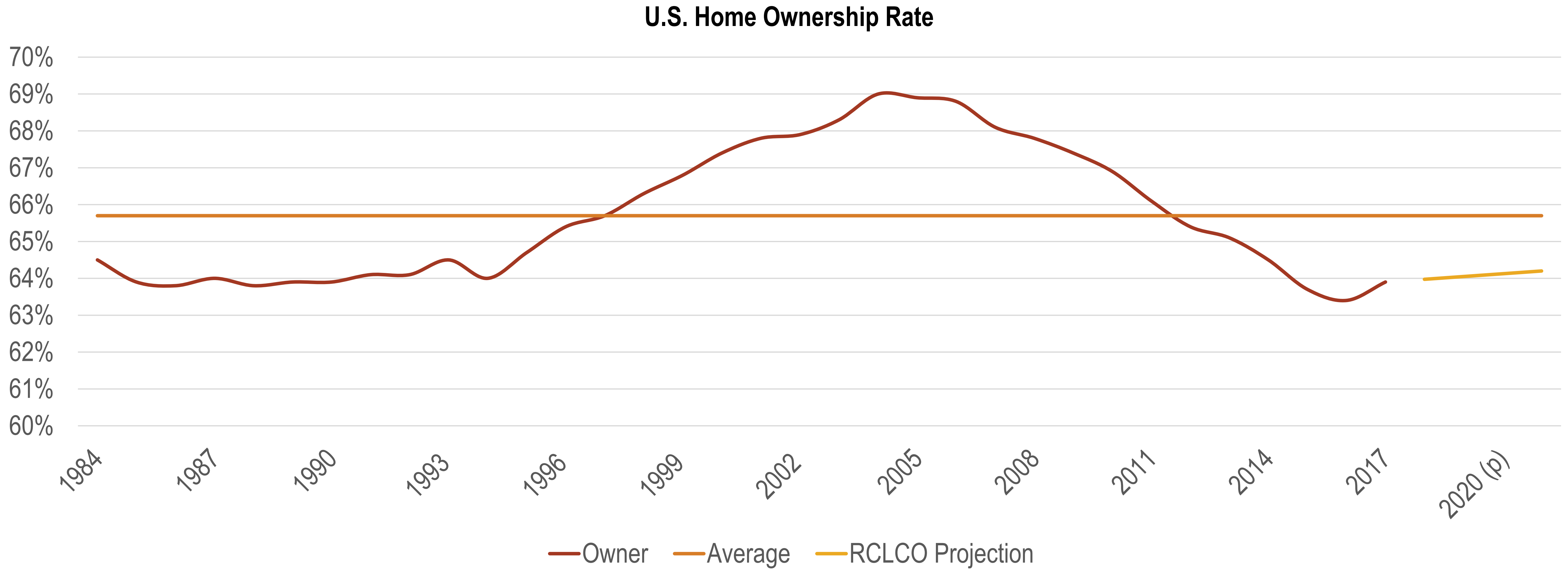
HOUSING TENURE

Declining homeownership rates have been among the largest tailwinds for rental communities in the last decade



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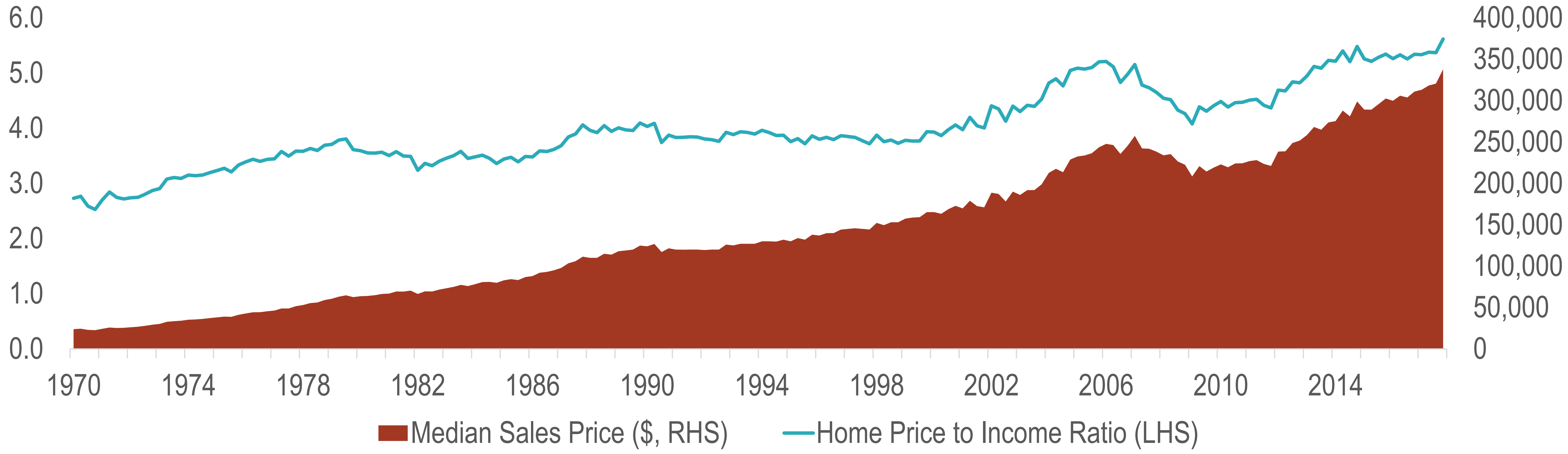
Source: RCLCO

AFFORDABILITY

Home prices have continued to rise faster than incomes, leaving many households unable to afford a single family home and pushing additional households towards single family rentals

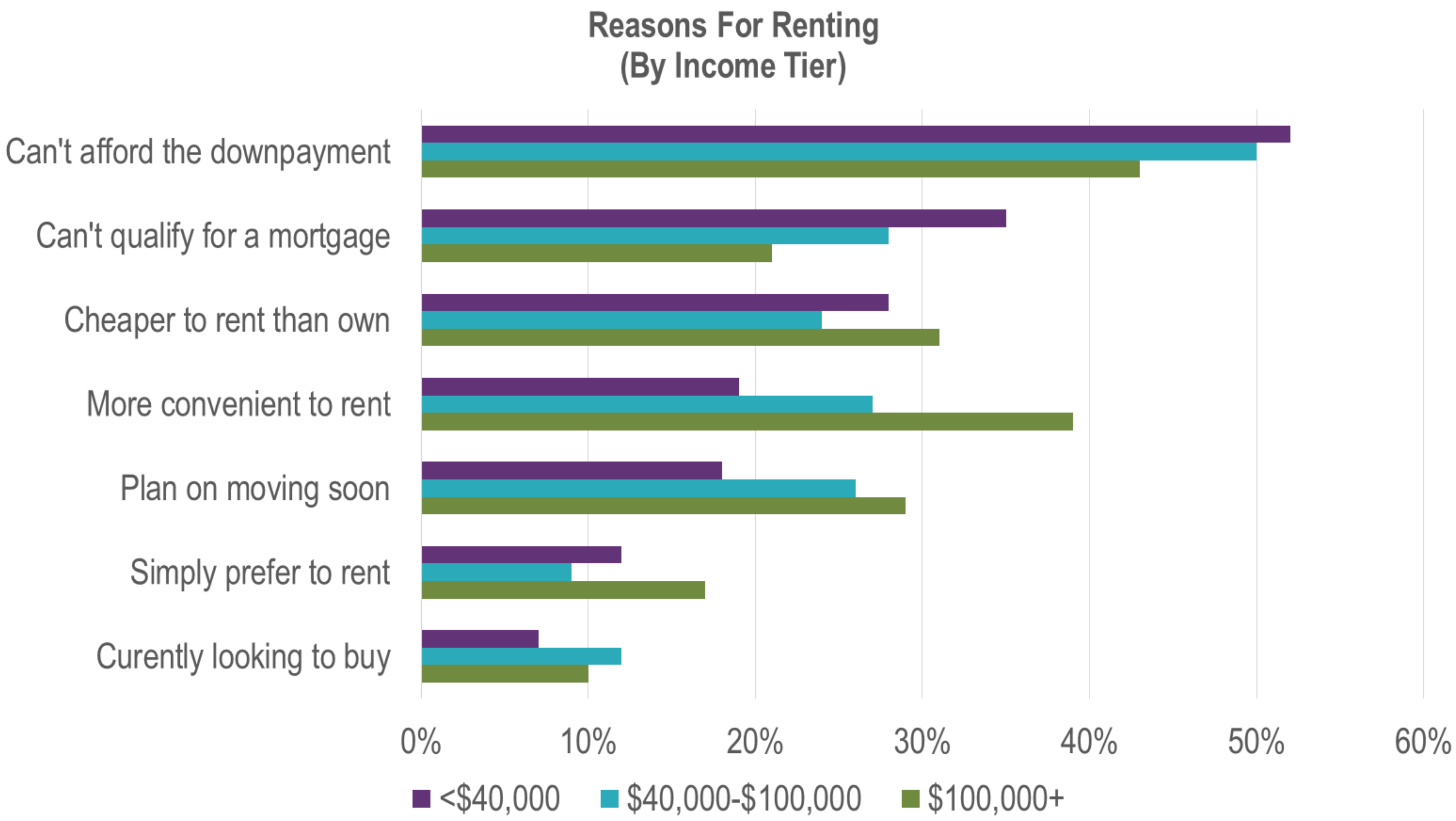
Home Price to Income Ratio and Median Sales Price
United States; 1970-2018



Source: US Census Bureau; RCLCO

AFFORDABILITY (CONTINUED)

The most common reason individuals choose to rent is the inability to afford the down payment for a home, representing nearly 50% of all renters



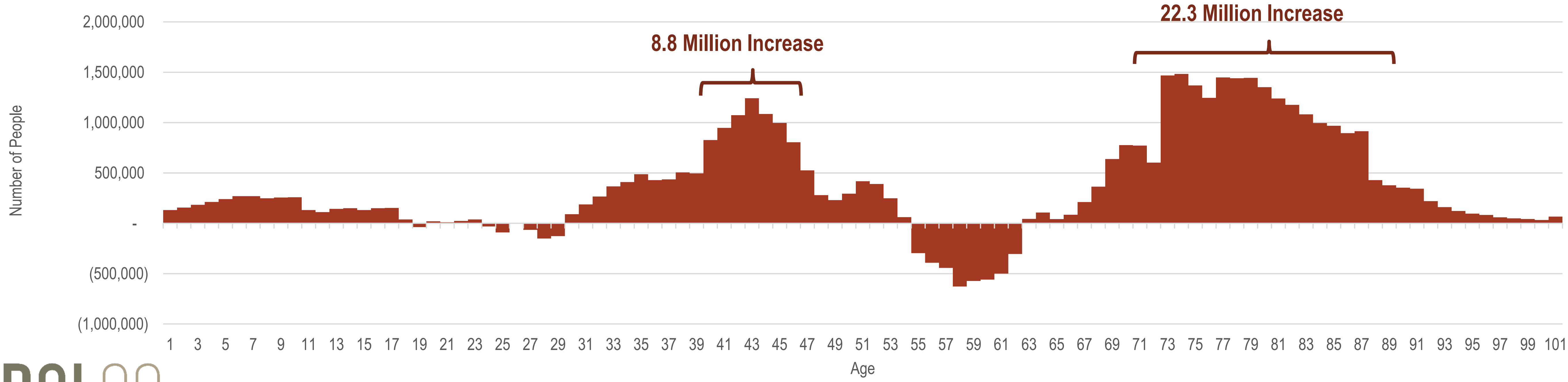
Source: RCLCO

SFR & DEMOGRAPHIC TAILWINDS

Over the past 15 years, the multifamily rental market has benefitted significantly from demographic shifts. Looking forward, these same demographic shifts are likely to benefit the single-family rental market.

- Aging Millennials
- Many Baby Boomers leaving their owned single-family homes.
- Over the next 15 years, the 35-45 year old cohort is expected to grow by 8.8M, while the 70+ cohort is expected to grow by 22.3M.
- RCLCO projections show annual structural demand for 550,000 single-family rental units with “realized demand” limited by the market’s ability to add supply.

Projected Population Change by Age, 2018-2033;
United States



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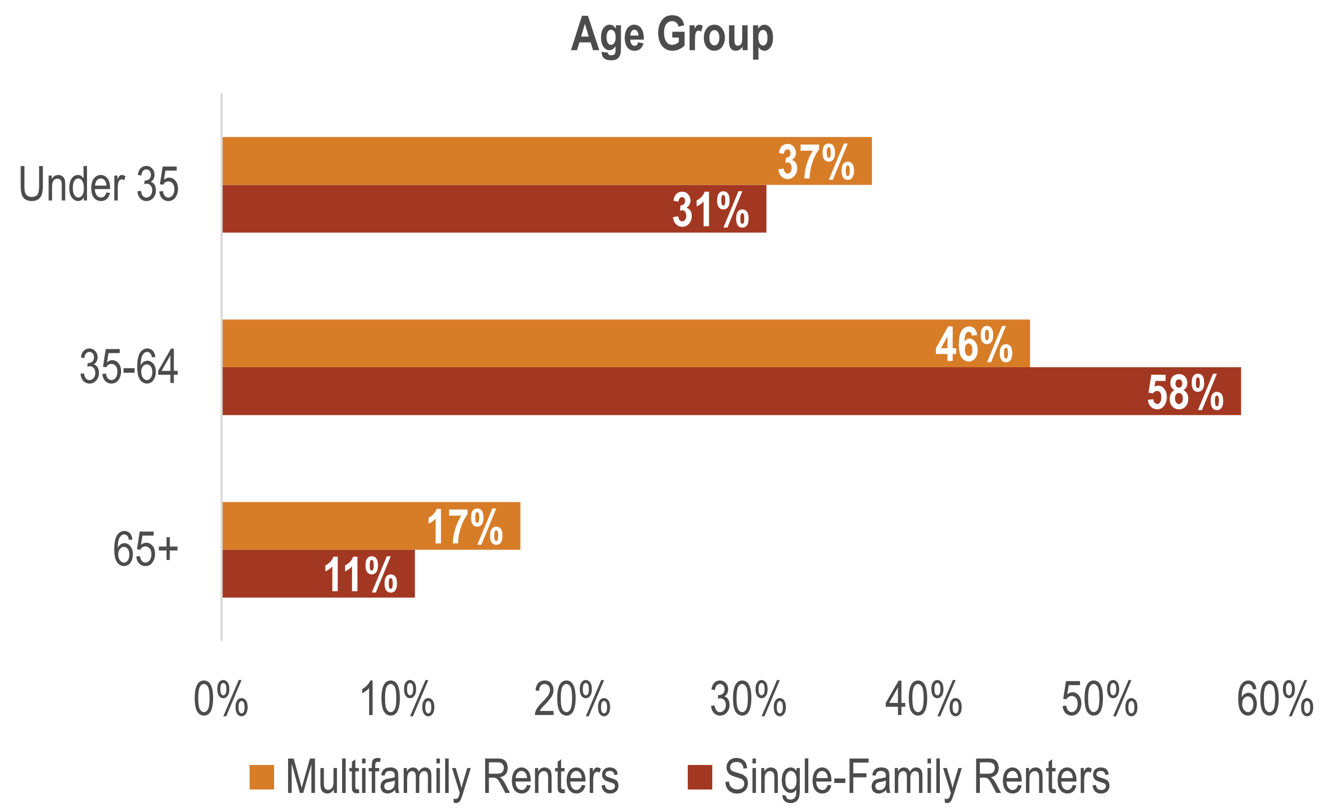
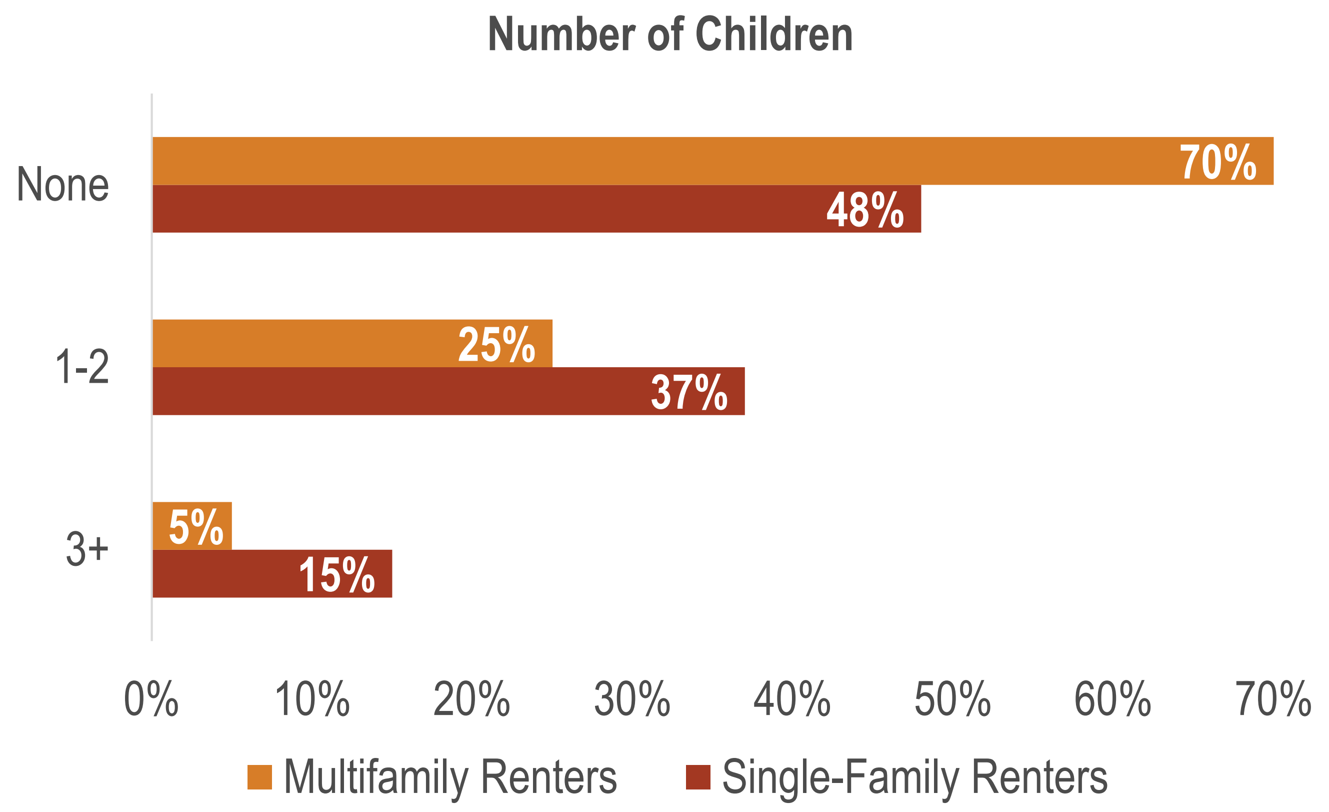
Source: US Census Bureau

SINGLE-FAMILY RENTAL CUSTOMER OVERVIEW

- Single-family renters are more likely to have larger households than multifamily renters. Families with children are a critical cohort within demand for single-family product
- Single-family renters have a higher percentage of renters in the 35-64 age group while multifamily has more renters found in younger (under 35) and older (65+) age cohorts

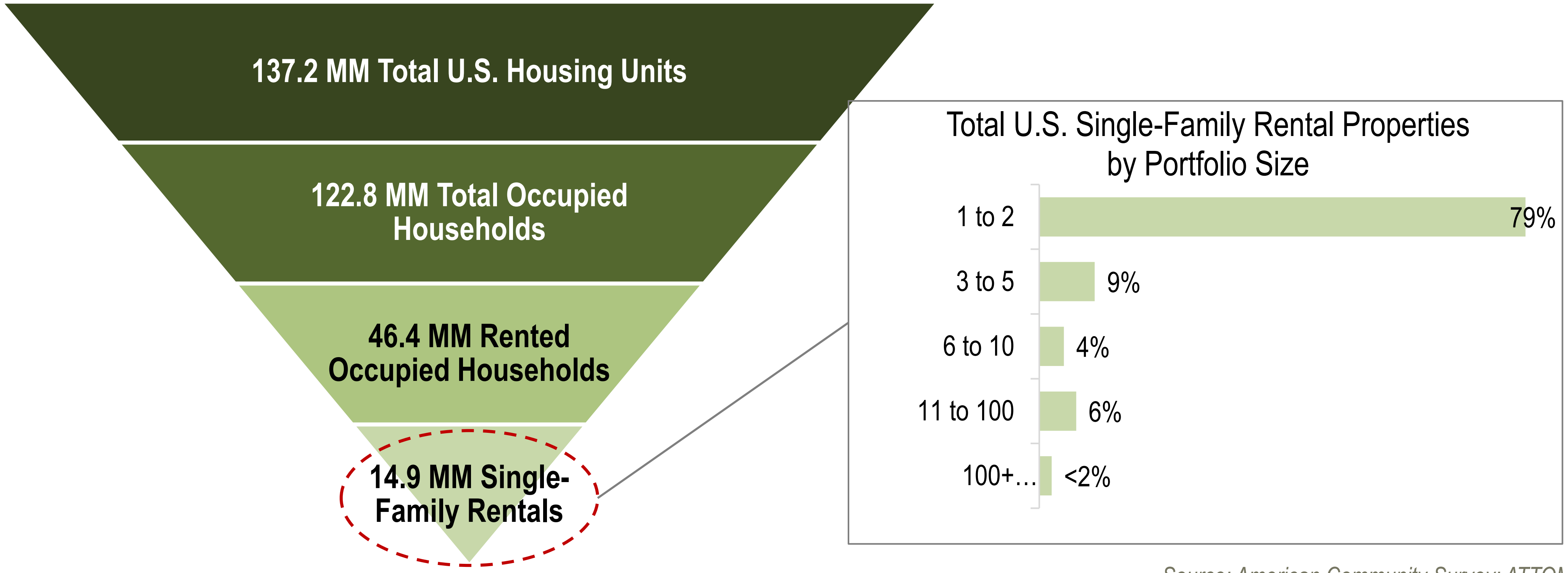




CURRENT NATIONAL SCALE

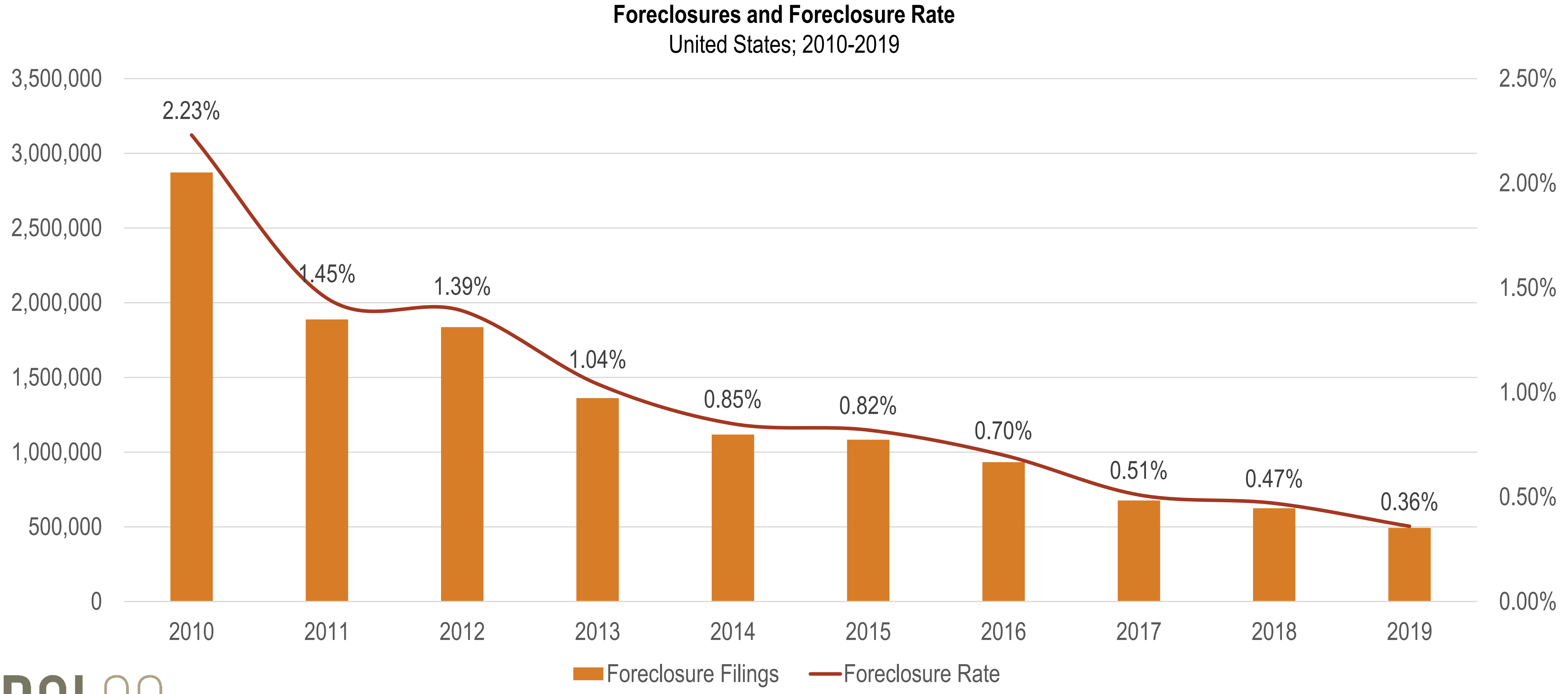
15 million single family rental housing units in the united states and ownership is highly fragmented

- 88% of single-family rentals are owned by mom and pop investors who own 1-5 single-family rental homes. In a fragmented market, a large amount of small and unsophisticated portfolios across the United States present a market consolidation opportunity for investors and operators, particularly in the top 50 MSAs.
- RCLCO expects continued consolidation throughout the industry, particularly in large, urban markets where barriers to entry are high, home values are high, and cap rates continue to compress



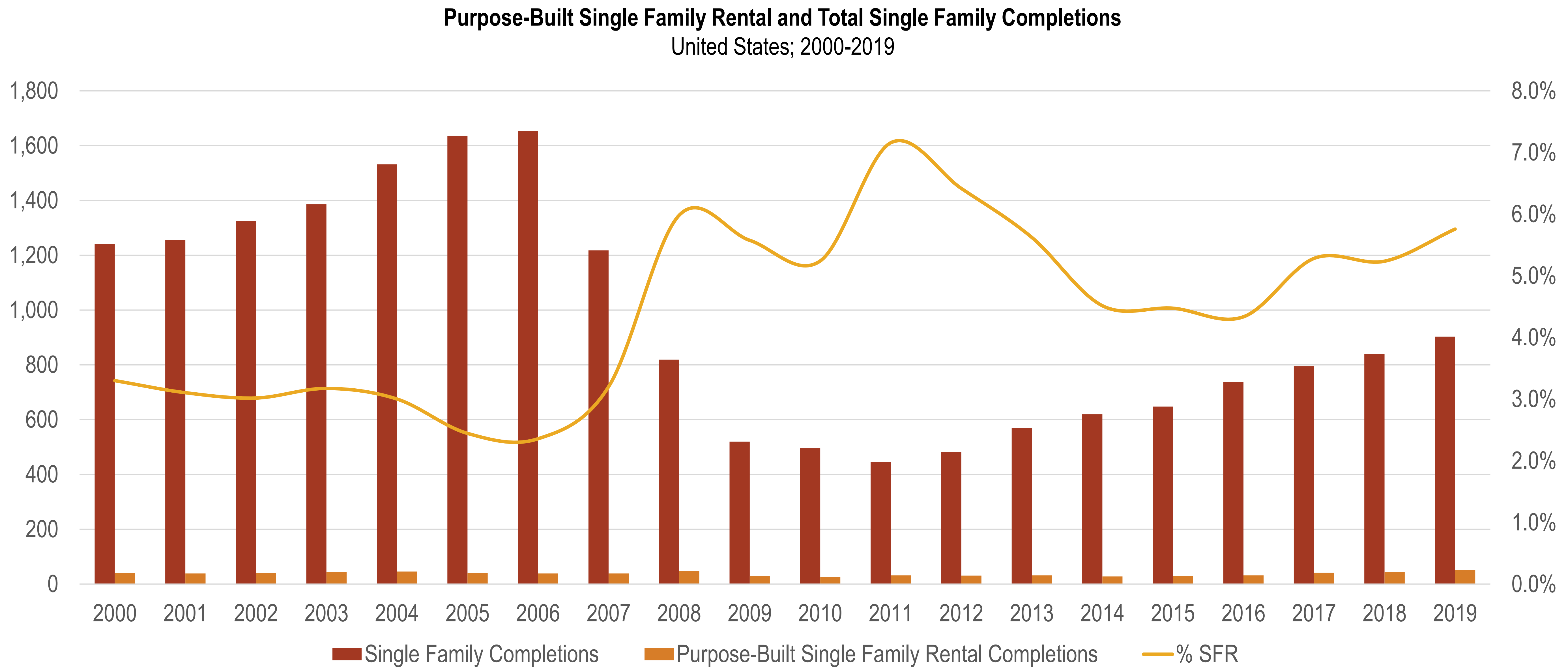
Source: American Community Survey; ATTOM Data Solutions; RCLCO

LARGE SF RENTAL SUPPLY ADDITIONS FROM FORECLOSURE CONVERSIONS



Source: Bloomberg; Federal Reserve; Statista; Federal Housing Finance Agency; RCLCO

PURPOSE-BUILT SUPPLY ADDITIONS – GROWING SHARE OF SF MARKET



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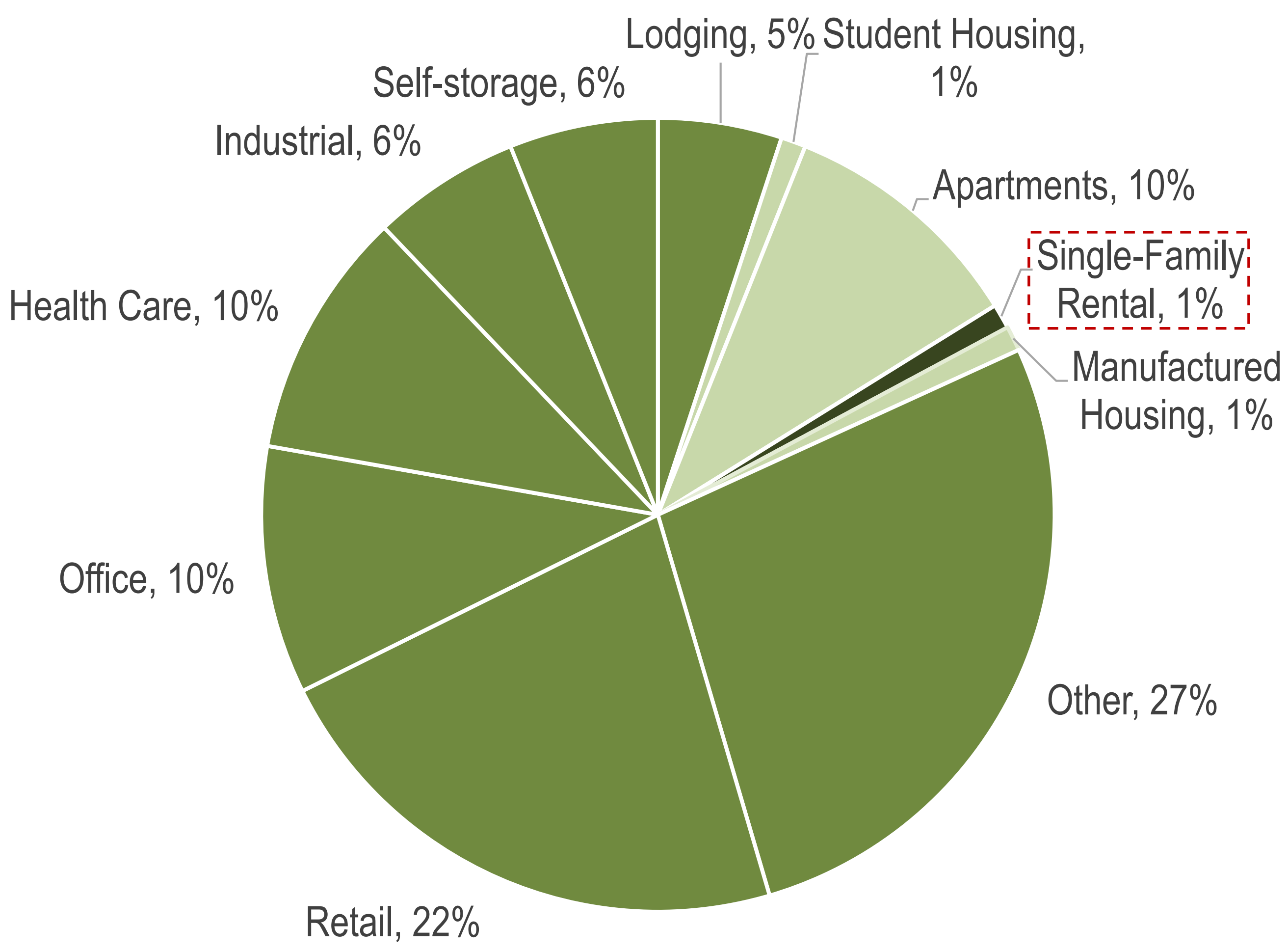
Source: US Census Survey of Construction

SFR & PUBLIC MARKETS

Institutionalization of space still lags single-family rental's market share; primarily through scattered-site acquisition rather than purpose-built new product.

% of NAREIT Equity Index



Source: Company Filings; Green Street Advisors

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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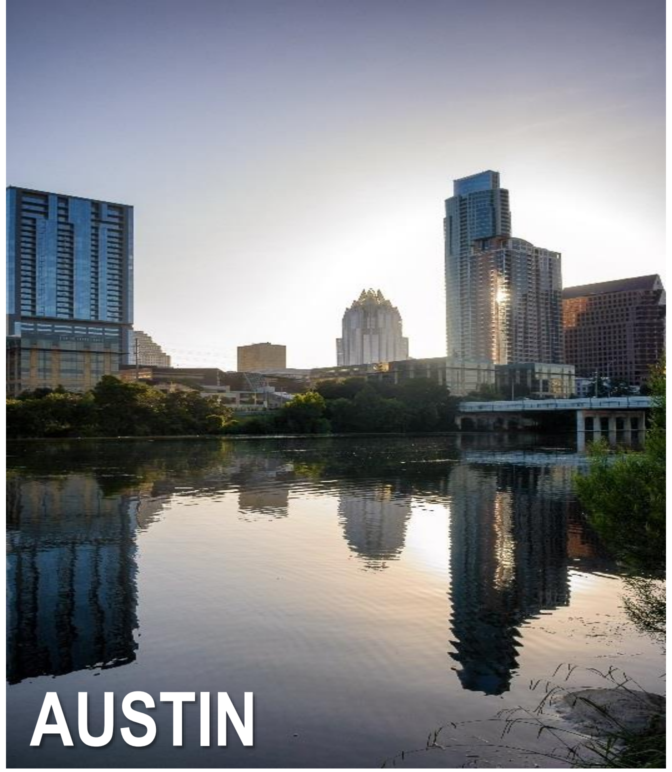

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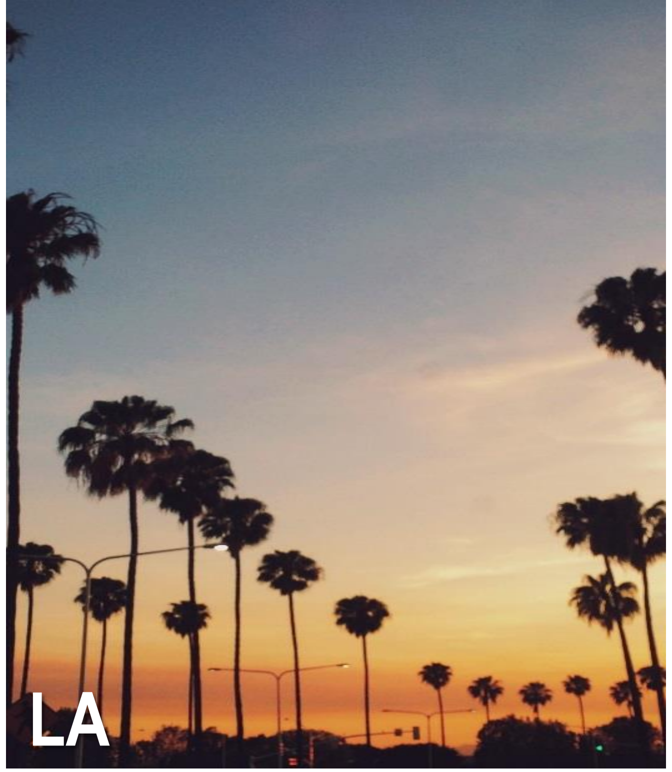

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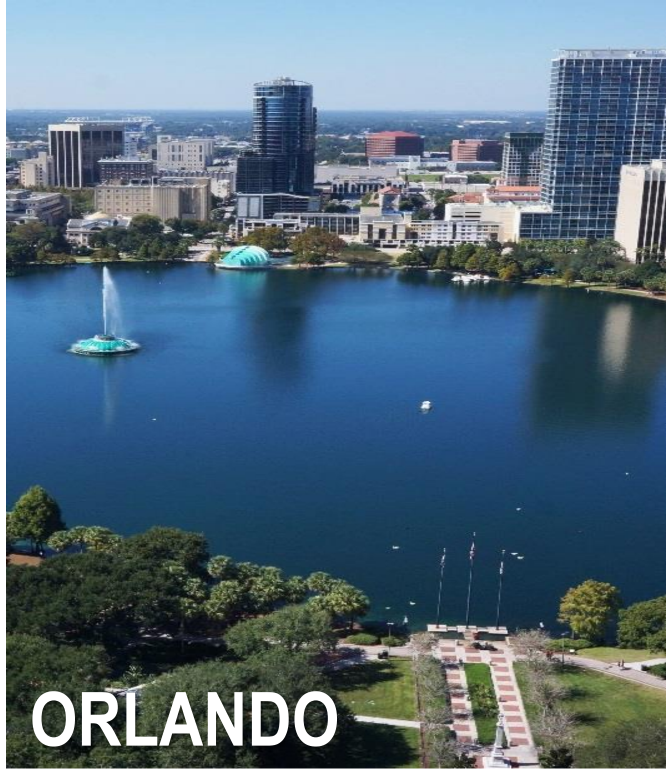

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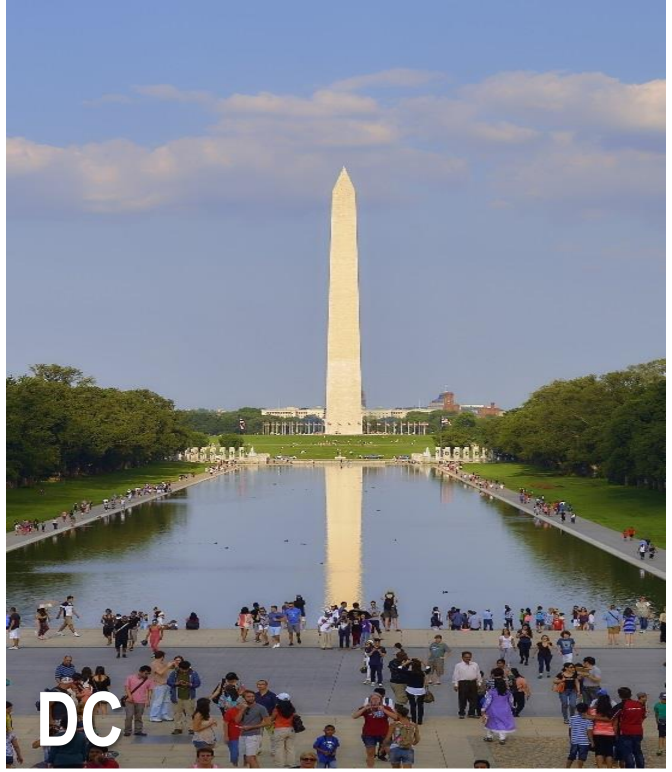

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