



RECONSTRUCTING THE AMERICAN DREAM

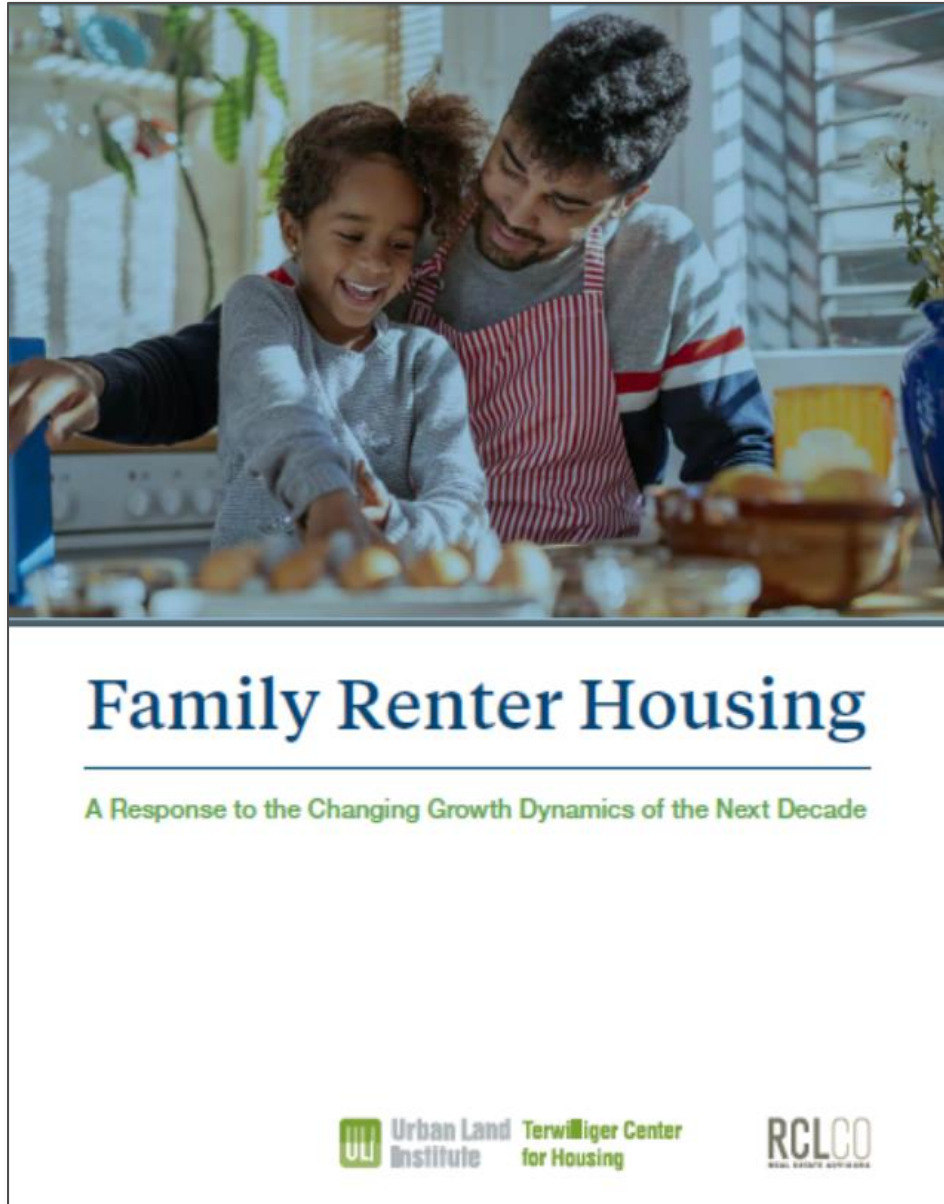
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RCLCO
REAL ESTATE ADVISORS

MAY 2020 ULI TERWILLIGER CENTER PUBLICATION KEY FINDINGS



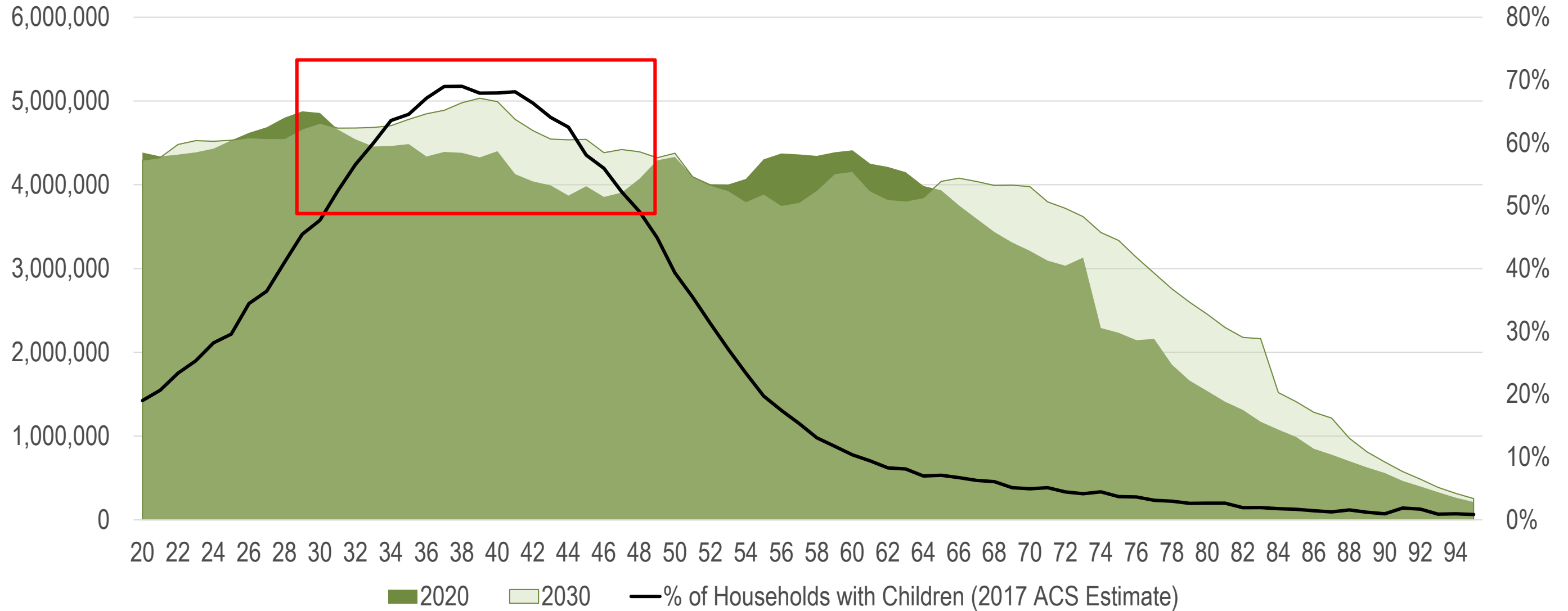
- ▶ 1/3 of American renter households are families – an incredibly diverse group defined here as homes with children under the age of 18
- ▶ Despite the broad change from ownership to renting, there was little growth in the number of household with children in the U.S. in the last decade and very little development targeted for 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 these family renter households 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 THESE MARKETS DIFFERENT THAN OTHER MARKETS IN THE UNITED STATES
5. HOW IS THE DEVELOPMENT COMMUNITY RESPONDING TO THE OPPORTUNITY?
6. WHAT ARE THE CONSTRAINTS AND POLICY CONCERNS?

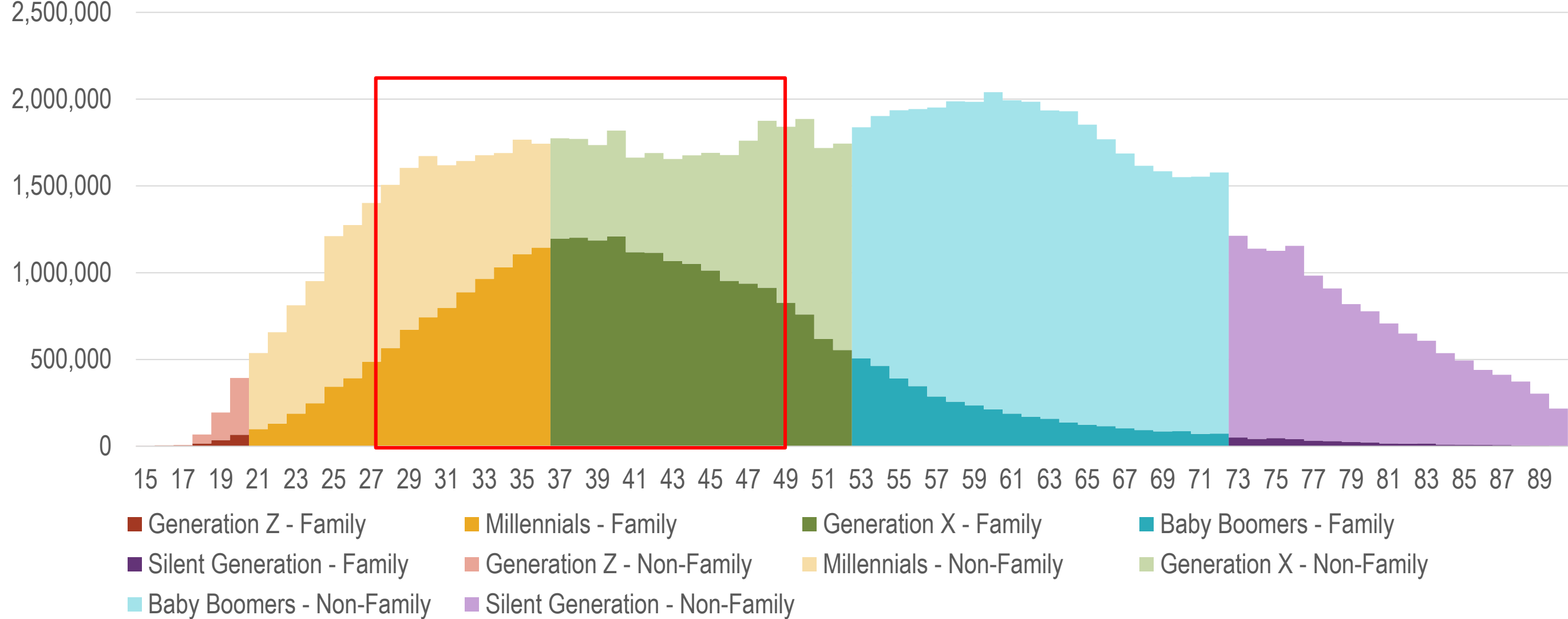
AS WE START A NEW DECADE... WHY SHOULD WE CARE SO MUCH?

Projected Population by Age; United States; 2020-2030



LATER PERHAPS, BUT FAMILY FORMATION RATE LARGELY UNCHANGED

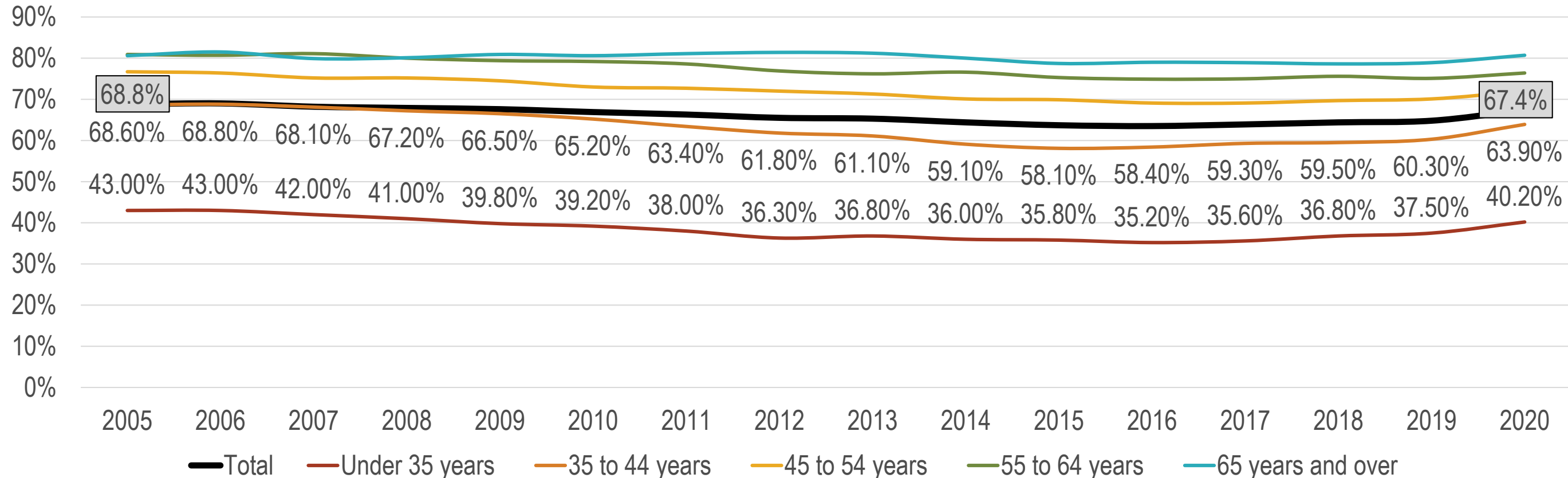
Family Composition by Age Cohort and Generation; United States; 2019



RENTERSHP RATES RISING IN EVERY AGE COHORT

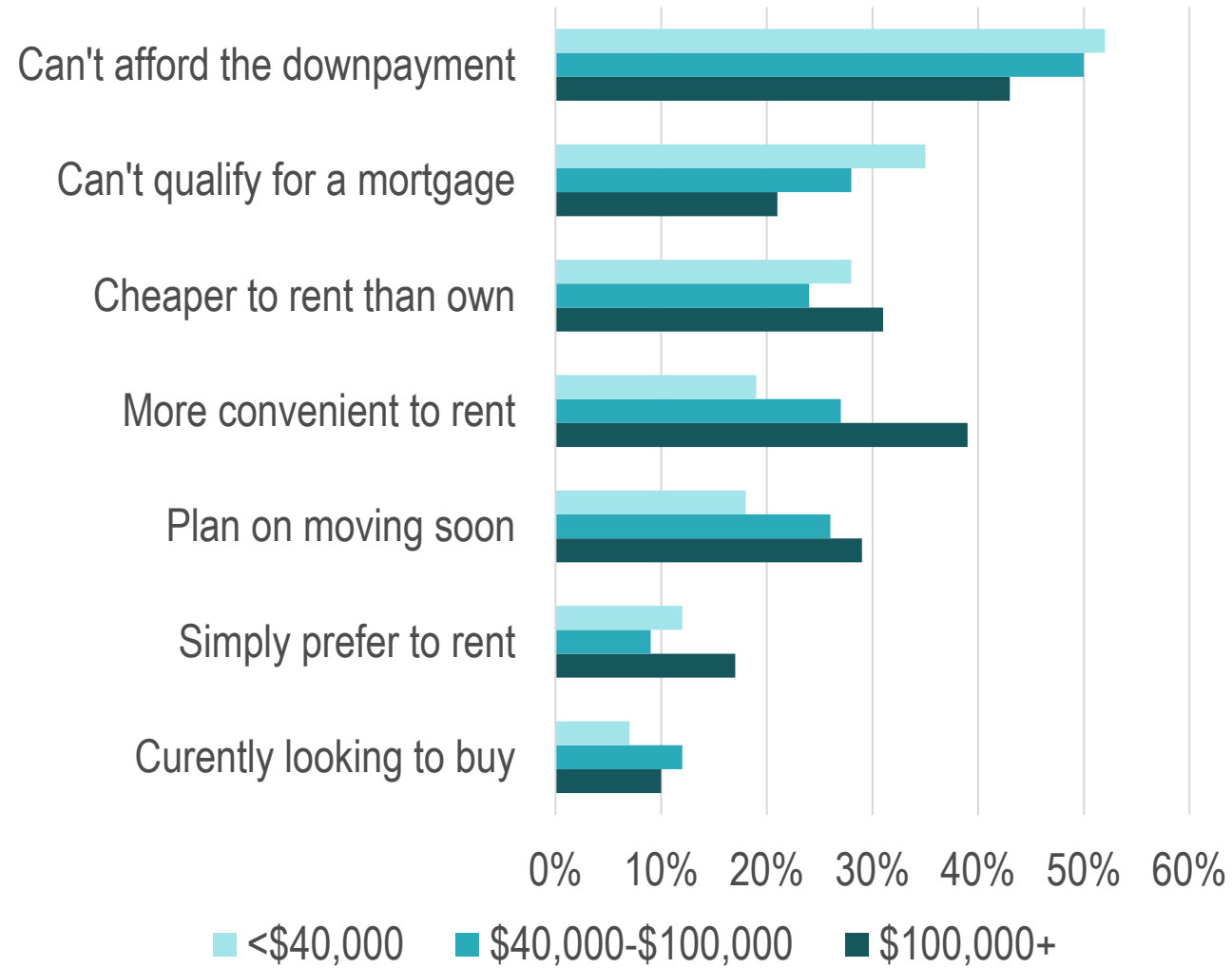
FAMILY AGE HOUSEHOLDS SWITCH TO RENTAL HAS BEEN PARTICULARLY STRONG, THOUGH THERE HAS BEEN AN UPTICK IN HOMEOWNERSHIP IN 2020

Homeownership Rate by Age; United States
2005-2020

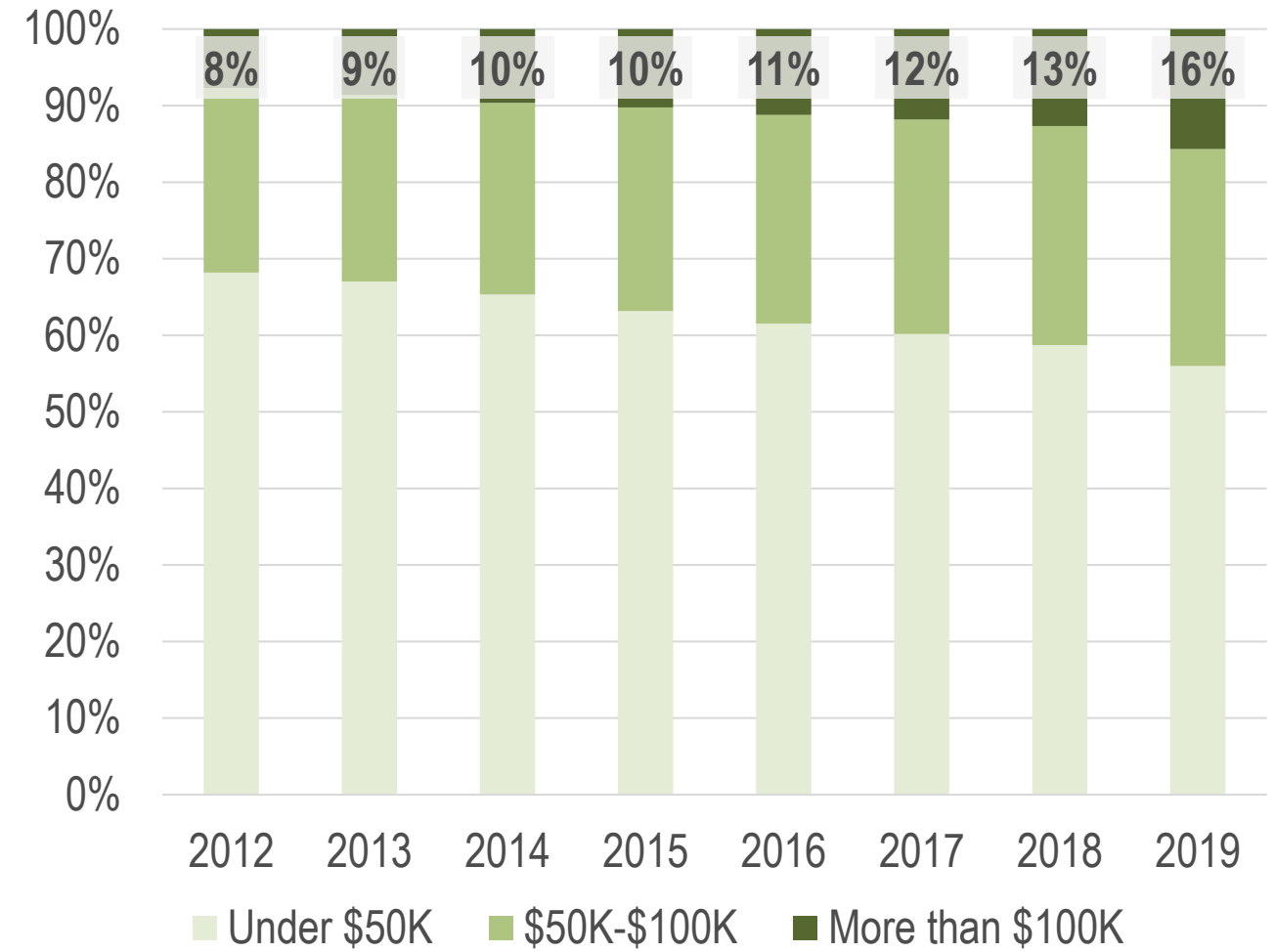


WHY DO RENTERS RENT?

Reasons for Renting by Income Tier; United States; 2019



Distribution of Renter Households by Household Income; United States 2012-2019



WHAT COVID-19 MIGHT MEAN FOR FAMILY RENTER HOUSING

1. HOUSEHOLD FORMATION
2. FLIGHT FROM URBAN AREAS?
3. PROPENSITY FOR RENTERSHIP
4. PERSISTENCE AND EVOLUTION OF HOUSING DEMAND
5. IMPORTANCE OF HOME

SUBURBAN GROWTH NOT A NEW TREND

RCLCO & ULI'S 2016 REPORT, HOUSING IN THE EVOLVING AMERICAN SUBURB, FOUND THAT SUBURBAN GROWTH HAS BEEN RESPONSIBLE FOR DRIVING METROPOLITAN GROWTH FOR MANY YEARS

America remains a largely suburban nation

- ▶ **79%** of the population, **78%** of households and **32%** of the land area in 50 top metros.

Suburban growth has driven recent metropolitan growth

- ▶ **91%** of population growth and **84%** of household growth (2000-2015)

A large majority of Americans work in suburbs

- ▶ **67.5%** of total jobs
- ▶ 2005 and 2010 – no suburban growth; 8% urban growth
- ▶ 2010 and 2014 – 9% suburban growth; 6% urban growth

Suburban residents overall have higher incomes

- ▶ Median income **\$21,800** higher in suburbs

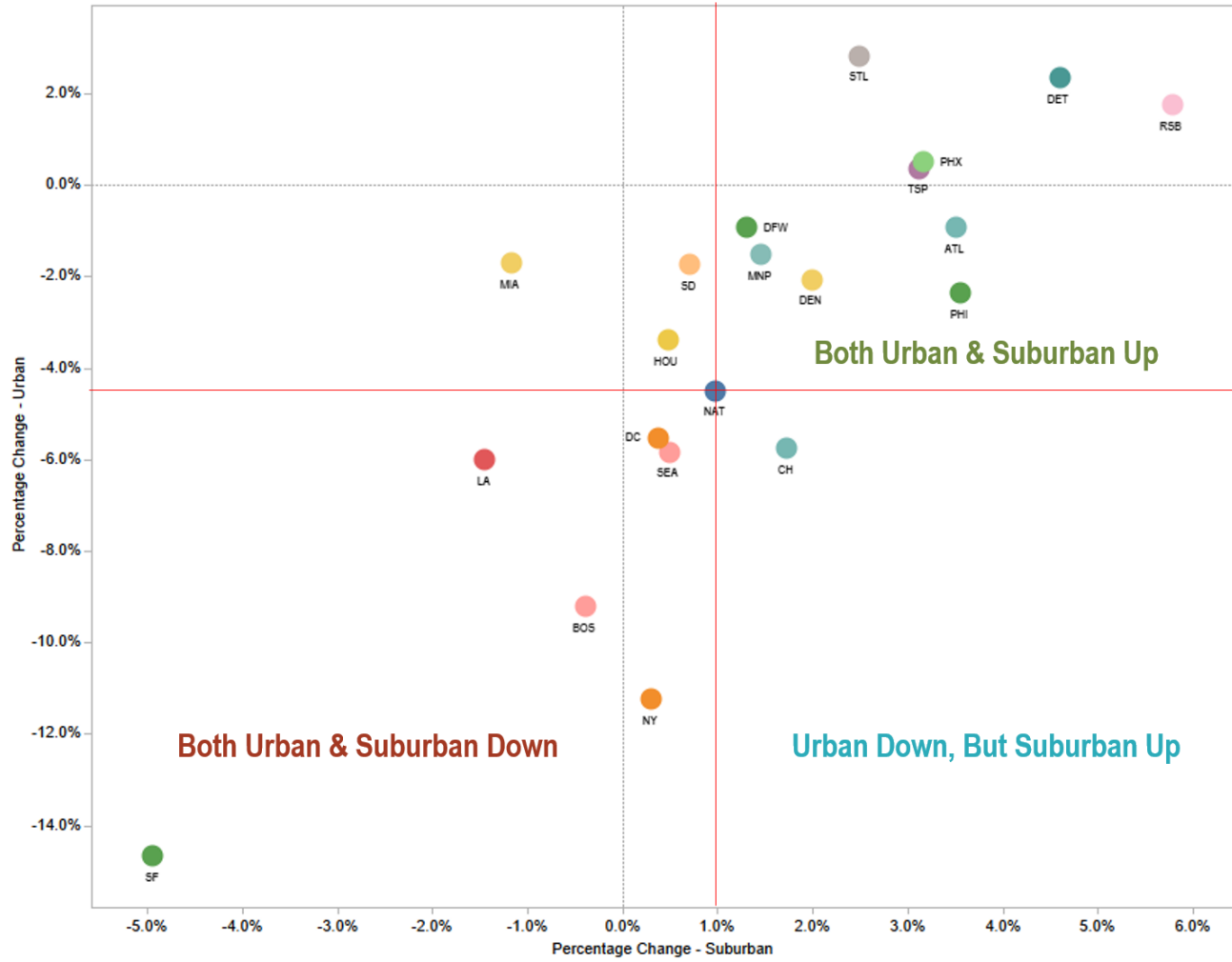
The suburbs are “young” compared with their regions overall

- ▶ **75%** of 25- to 34-year-olds live in the suburbs of 50 top metros

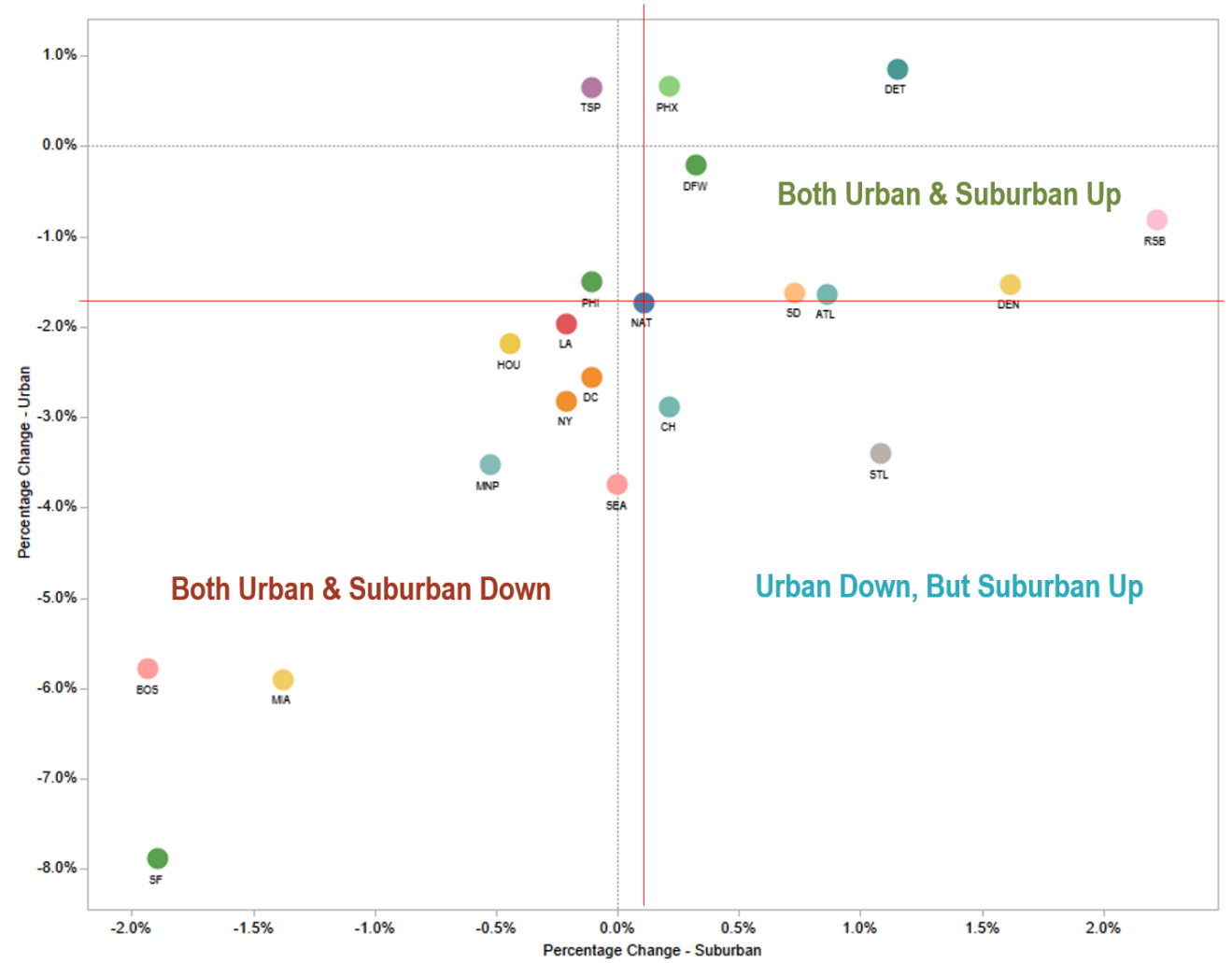
American suburbs as a whole are racially and ethnically diverse

- ▶ **76%** of the minority population lives in the suburbs

% Change in Effective Rents for Top 20 Markets



% Change in Occupancy for Top 20 Markets



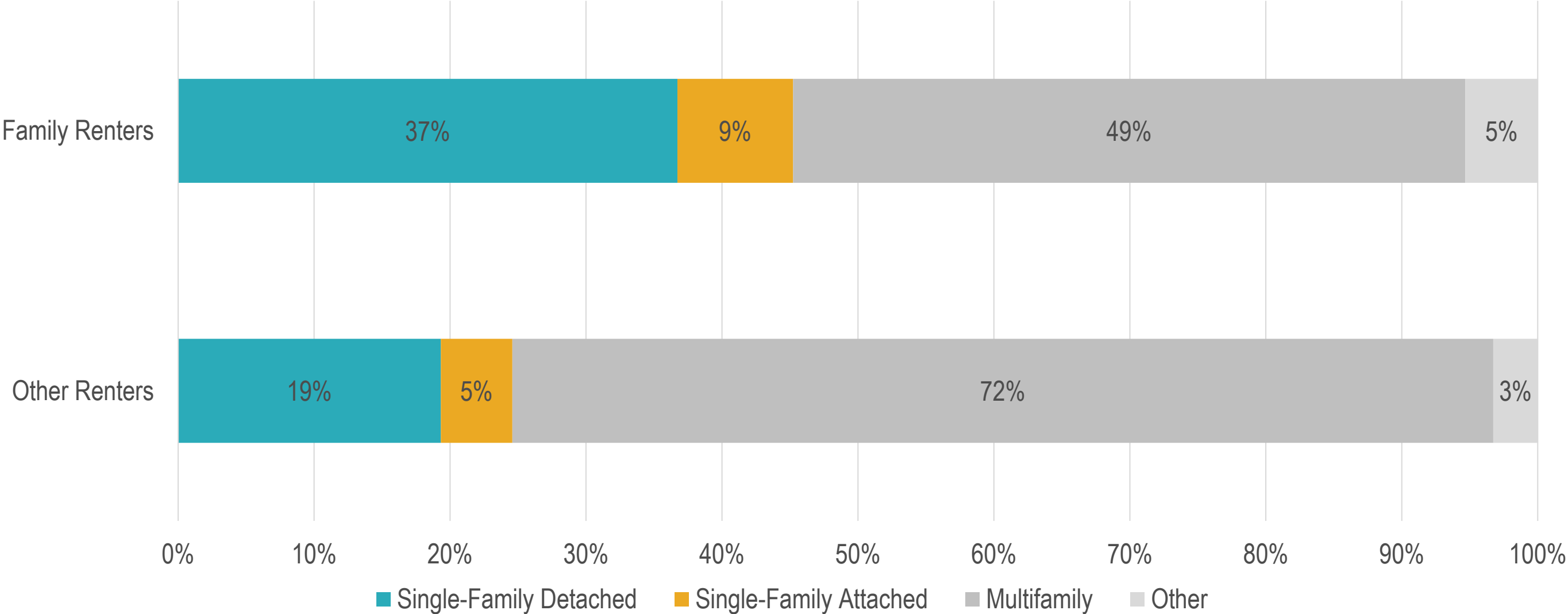
FAMILY HOUSEHOLDS VARY BY GENERATION AND BY MARKET...

Share of Family Households and Family Renter Households; 2019

Share of Family Households											
	U.S.	Orange County	Inland Empire	Los Angeles	San Diego	San Francisco	San Jose	Oakland	Phoenix	Seattle	Boston
Generation Z	19%	16%	46%	27%	24%	14%	3%	17%	23%	20%	18%
Millennials	45%	40%	60%	37%	39%	18%	34%	40%	45%	33%	31%
Generation X	56%	62%	62%	57%	58%	49%	65%	61%	57%	56%	59%
Baby Boomers	11%	16%	17%	17%	15%	13%	18%	15%	12%	11%	12%
Silent Generation	3%	4%	3%	5%	2%	3%	4%	3%	3%	2%	3%
Share of Family Households	30%	33%	38%	32%	32%	23%	35%	33%	31%	30%	28%
Share of Family Households That Rent											
	U.S.	Orange County	Inland Empire	Los Angeles	San Diego	San Francisco	San Jose	Oakland	Phoenix	Seattle	Boston
Generation Z	77%	81%	72%	86%	90%	0%	0%	88%	95%	97%	78%
Millennials	51%	69%	58%	74%	67%	66%	66%	64%	51%	49%	52%
Generation X	30%	45%	36%	51%	44%	40%	41%	38%	31%	29%	27%
Baby Boomers	23%	30%	24%	36%	32%	32%	32%	28%	23%	23%	19%
Silent Generation	15%	20%	14%	19%	16%	18%	16%	10%	17%	9%	15%
Family Renter Households as % of Families	36%	48%	41%	53%	48%	43%	45%	43%	37%	35%	32%
Share of Renter Households That Are Families											
	U.S.	Orange County	Inland Empire	Los Angeles	San Diego	San Francisco	San Jose	Oakland	Phoenix	Seattle	Boston
Generation Z	17%	15%	44%	26%	23%	0%	0%	16%	24%	20%	17%
Millennials	38%	38%	58%	34%	35%	15%	30%	36%	38%	25%	24%
Generation X	48%	59%	61%	53%	54%	37%	59%	54%	49%	46%	46%
Baby Boomers	11%	17%	17%	17%	16%	11%	20%	15%	13%	11%	9%
Silent Generation	2%	3%	2%	3%	2%	2%	3%	1%	3%	1%	1%
Family Renter Households as % of Renters	31%	37%	45%	34%	34%	19%	36%	34%	34%	26%	24%

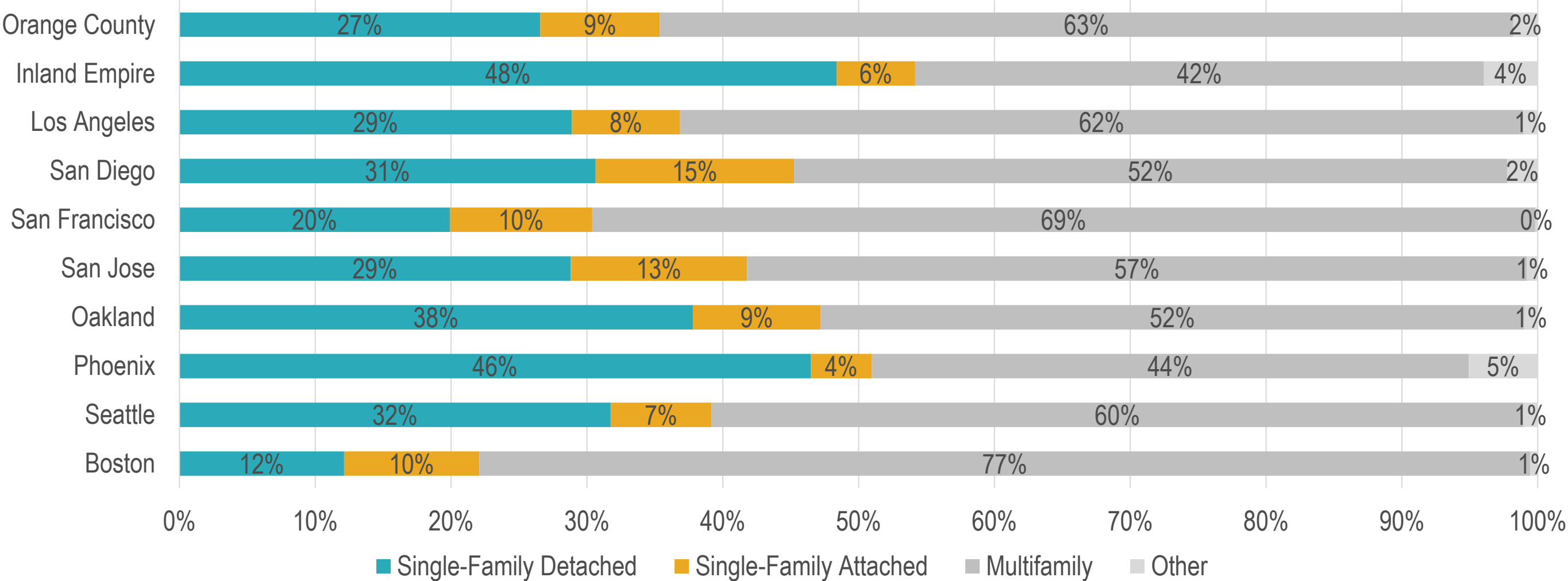
SO WHAT TYPE OF HOUSING DO THESE RENTERS LIVE IN TODAY?

Current Type of Residence by Household Type; United States; 2019



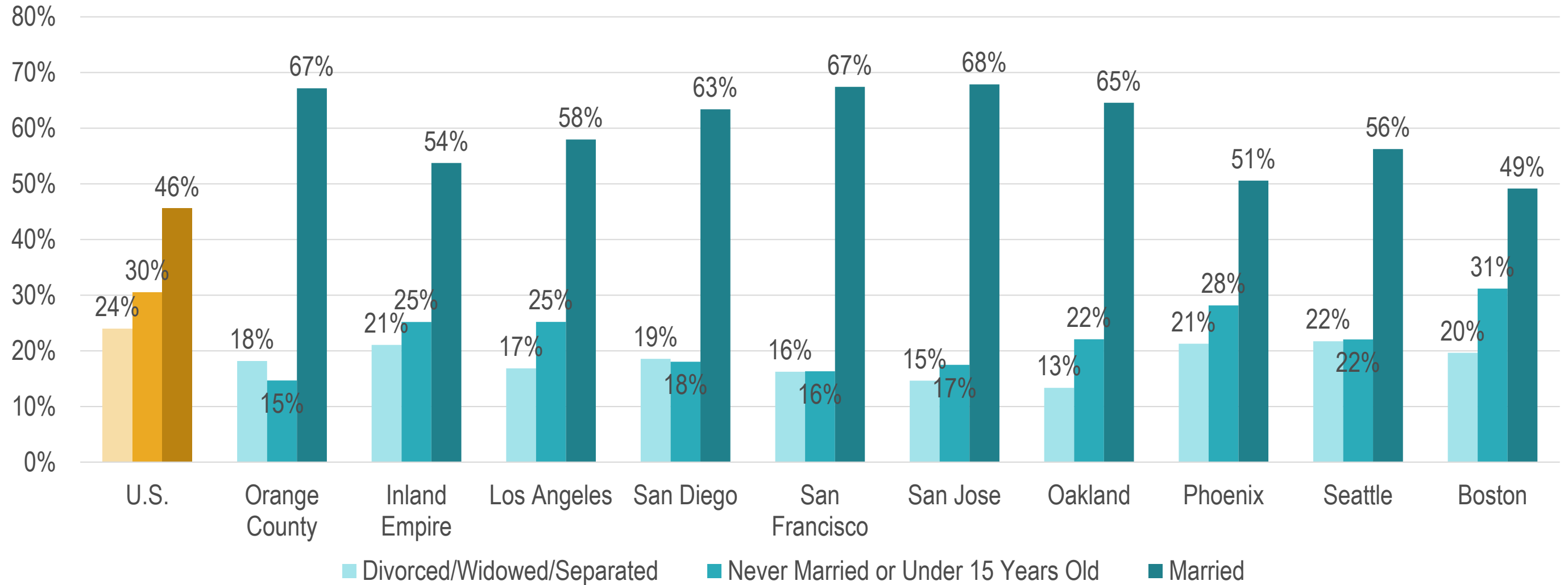
SO WHAT TYPE OF HOUSING DO THESE FAMILY RENTERS LIVE IN TODAY?

Current Type of Residence for Family Renters
2019



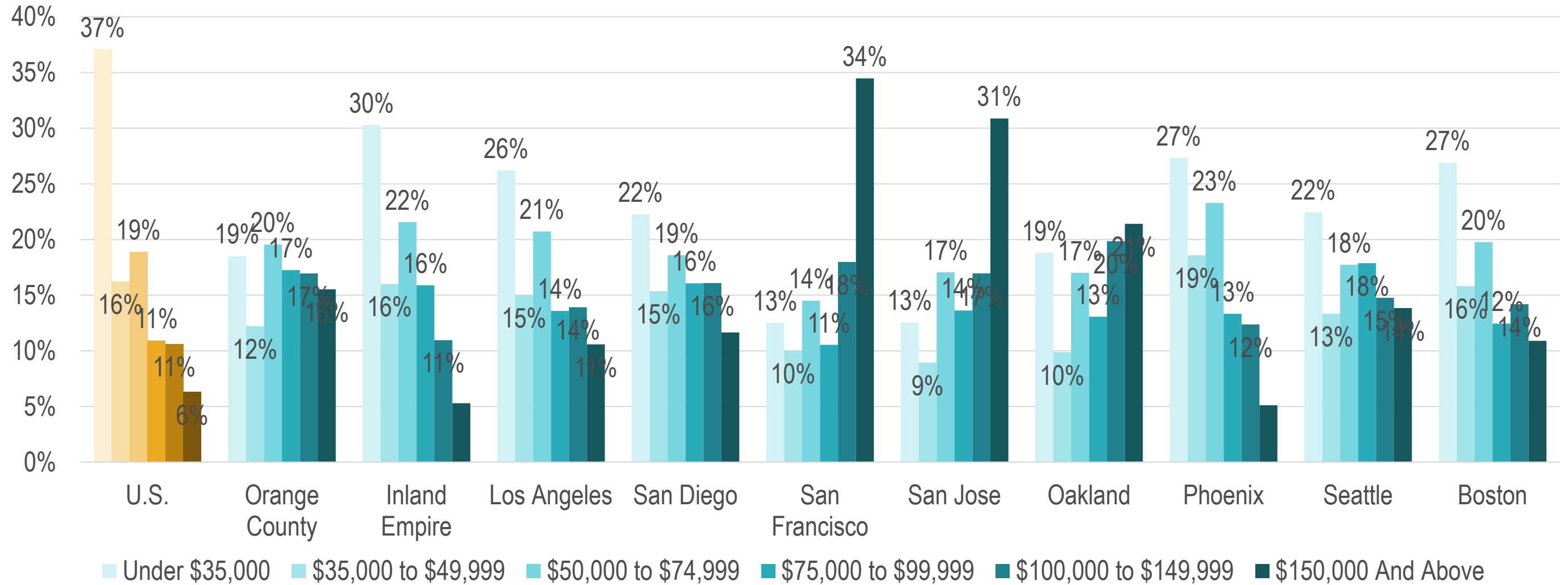
AND WHO ARE THESE FAMILY RENTER HOUSEHOLDS?

**Marital Status of Family Renter Households
2019**



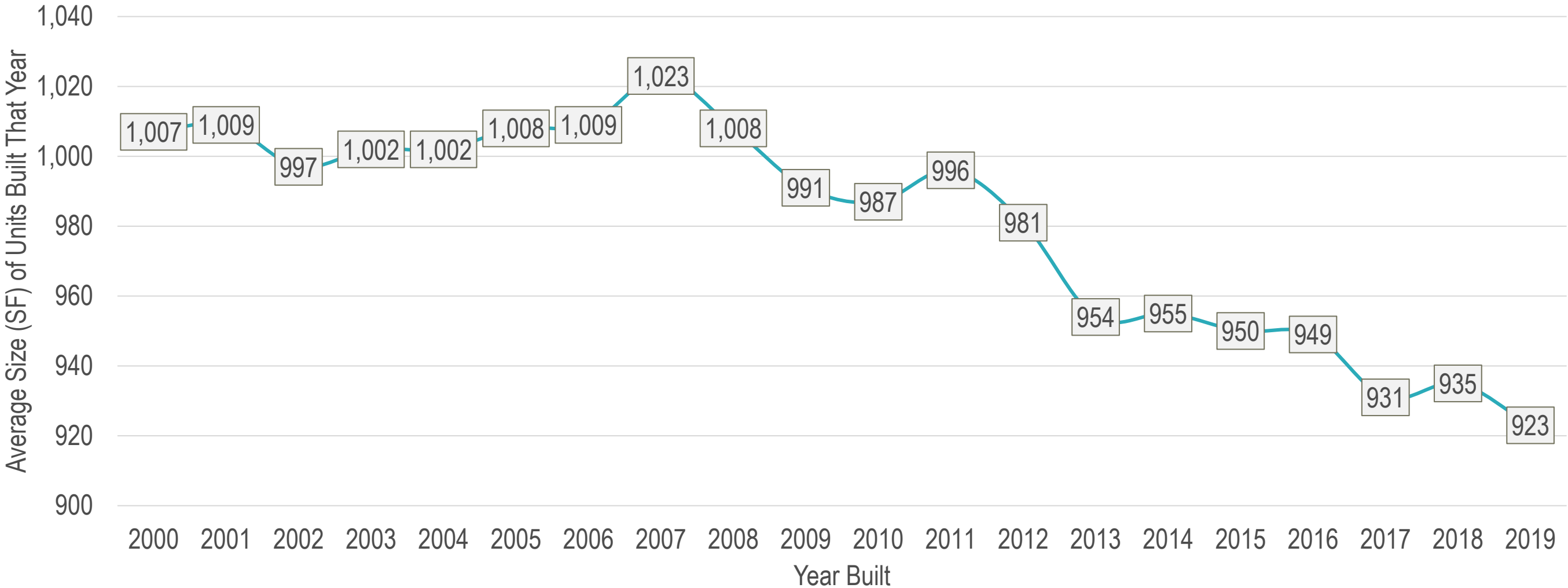
AND WHO ARE THESE FAMILY RENTER HOUSEHOLDS?

**Income Distribution of Family Renter Households
2019**



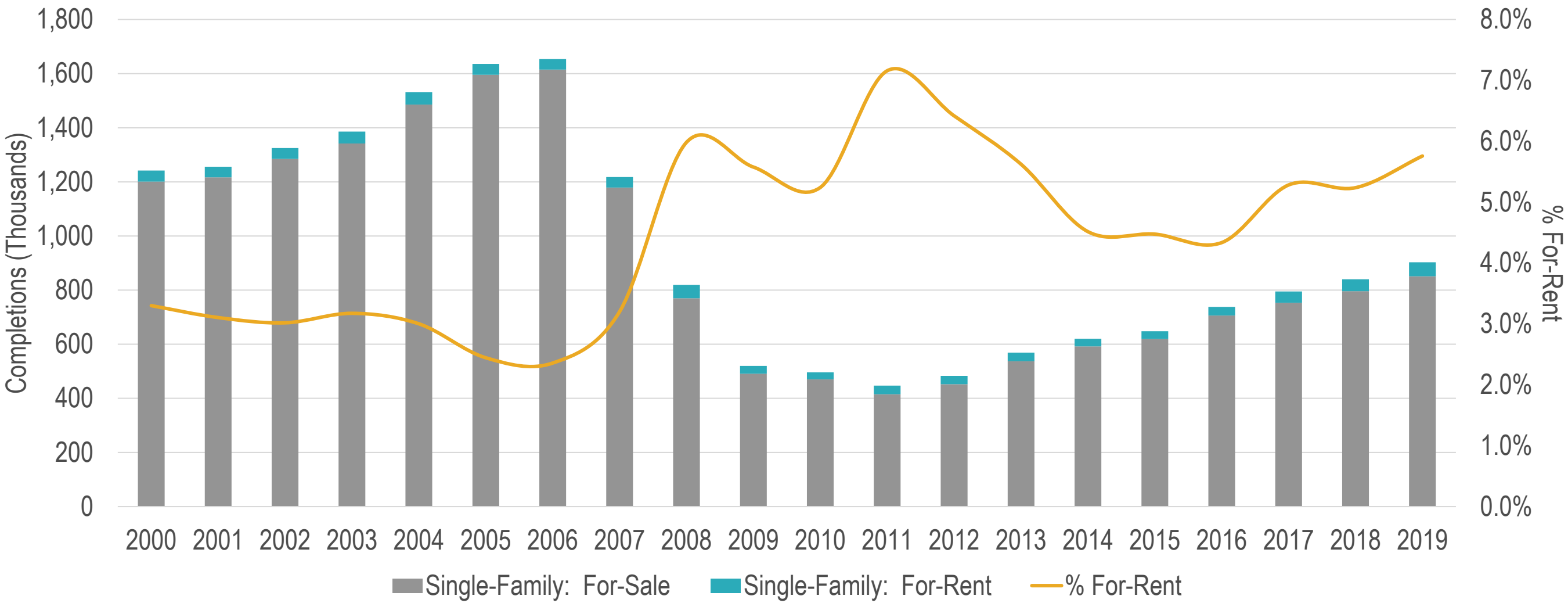
AND WHO ARE WE BUILDING FOR?

Average Size of New Multifamily Units Delivered; United States 2000-2019



AND WHO ARE WE BUILDING FOR?

Single-Family Residential Completions by Intent; United States
2000-2019



1. SUBURBAN RENTAL APARTMENTS FOR FAMILIES

SOME SIGNS OF LIFE IN THIS SECTOR

Union Place; Orange County, California



- ▶ *50%+ Two-bedrooms or more*
- ▶ *Average unit size of 1,200+*
- ▶ *Rents \$2.24*
- ▶ *Simple, durable finishes*
- ▶ *Family amenities!*



2. SUBURBAN SINGLE-FAMILY HOMES FOR-RENT

SECTOR SLOWLY EMERGING IN THE WEST

Autumn Crest; Seattle, Washington



- ▶ *Primarily three- and four-bedroom homes*
- ▶ *Average unit size above 1,500 SF*
- ▶ *Rents starting from \$2,400*
- ▶ *No amenities or low cost amenities focused on outdoor, active lifestyle*



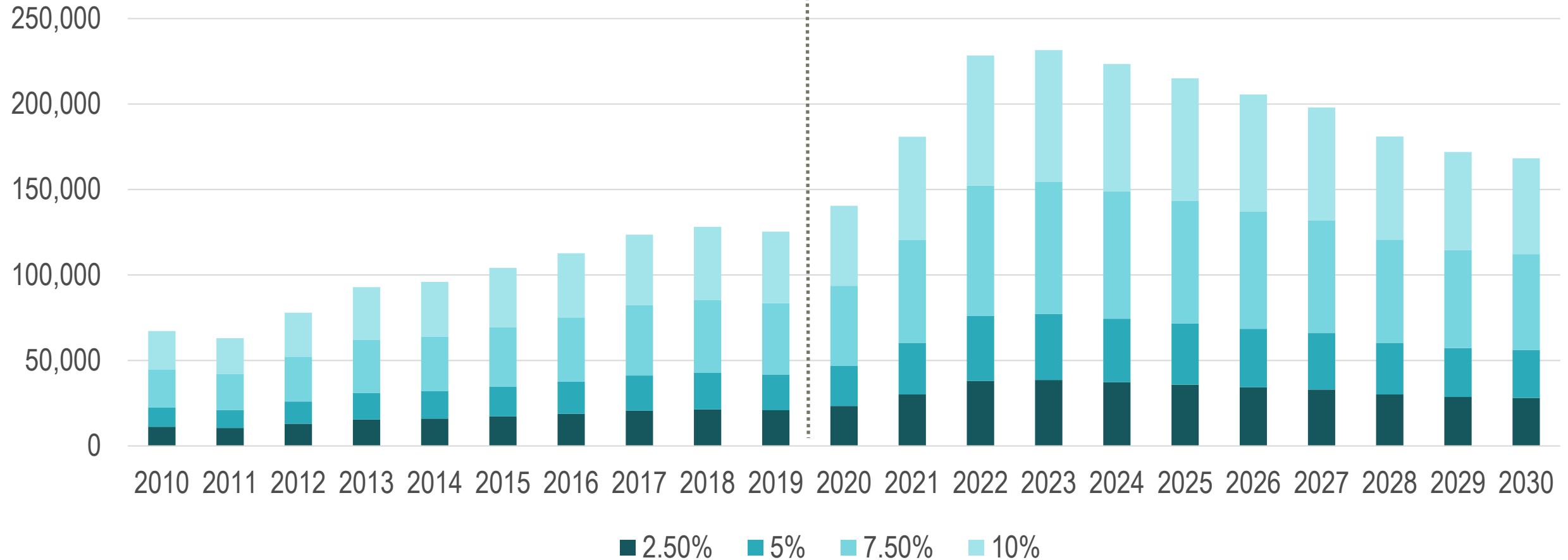
HOW QUICKLY WILL THE HOUSING INDUSTRY PIVOT?

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%

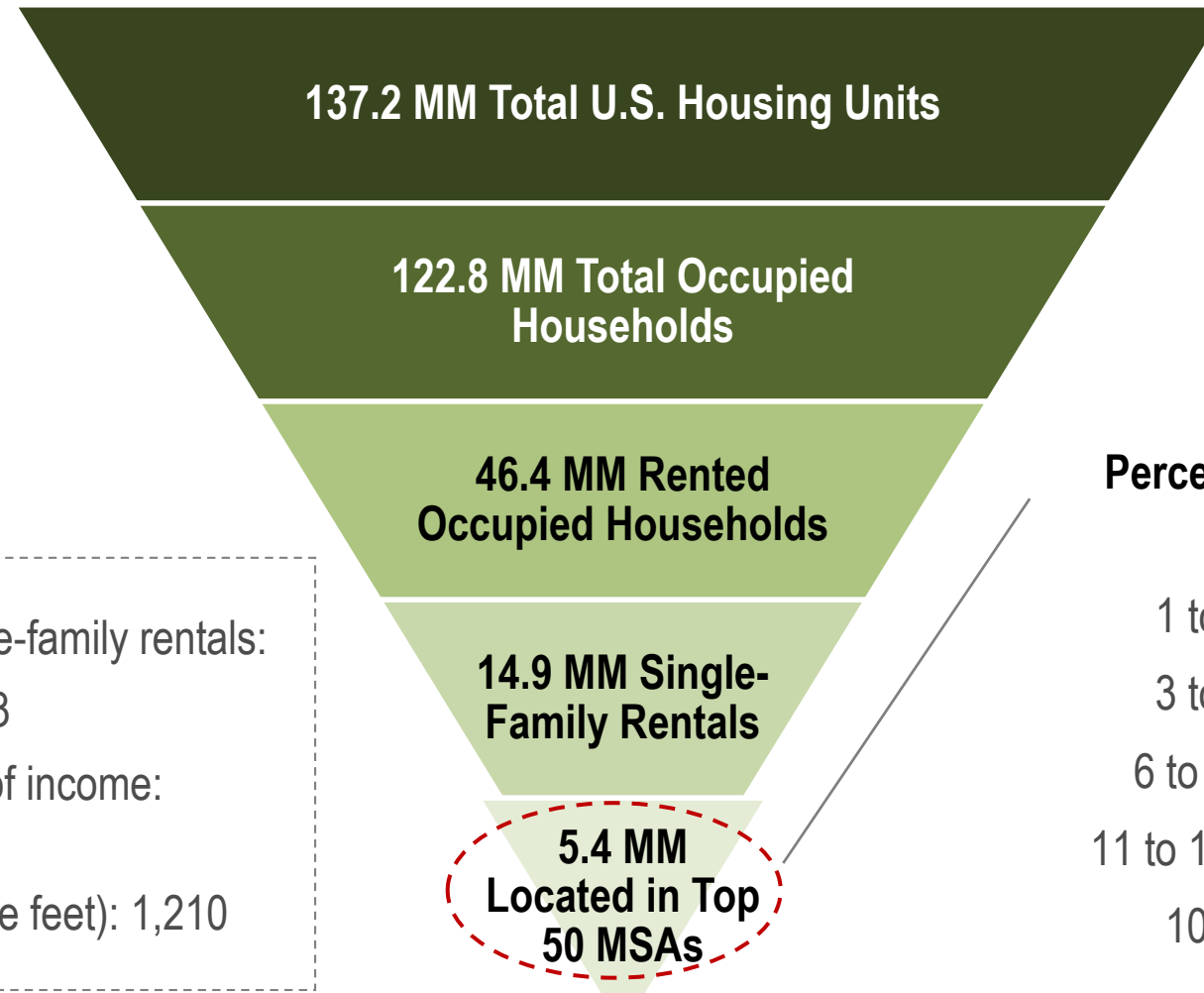
AND WHO ARE WE BUILDING FOR?

Annual SFR Supply Additions by Change in % of SFD Purpose Built as SFR; United States
2010-2030



AND WHO ARE WE BUILDING FOR?

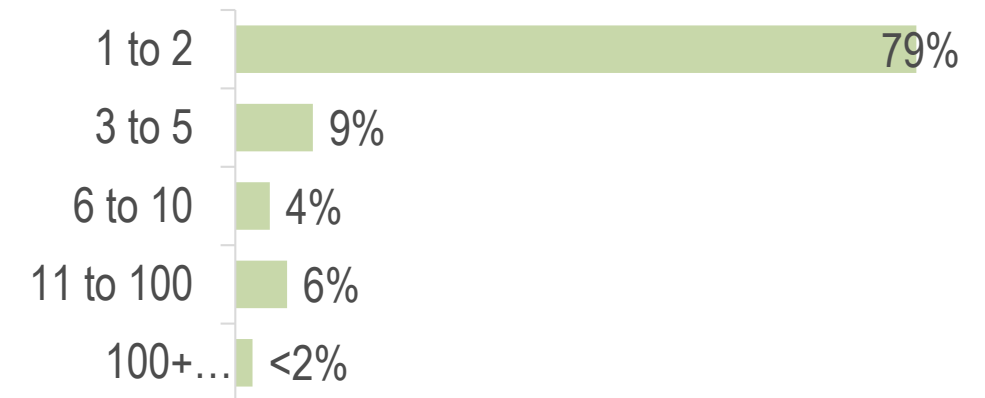
Average Size of New Multifamily Units Delivered; United States
1980-2019



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



3. LUXURY RENTAL TOWNHOMES

PRODUCT SOLUTION NOT AS PREVALENT IN WESTERN SUBMARKETS

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*



4. DETACHED/ATTACHED APARTMENTS

SOME MOVEMENT HERE AS DEVELOPERS FILL GAP FOR NEEDED TRANSITIONAL LIVING

Ara Residences; Phoenix, Arizona



- ▶ *Low density townhomes*
- ▶ *One- and two-car garages*
- ▶ *Rent starting at \$2,400*
- ▶ *Family amenities*



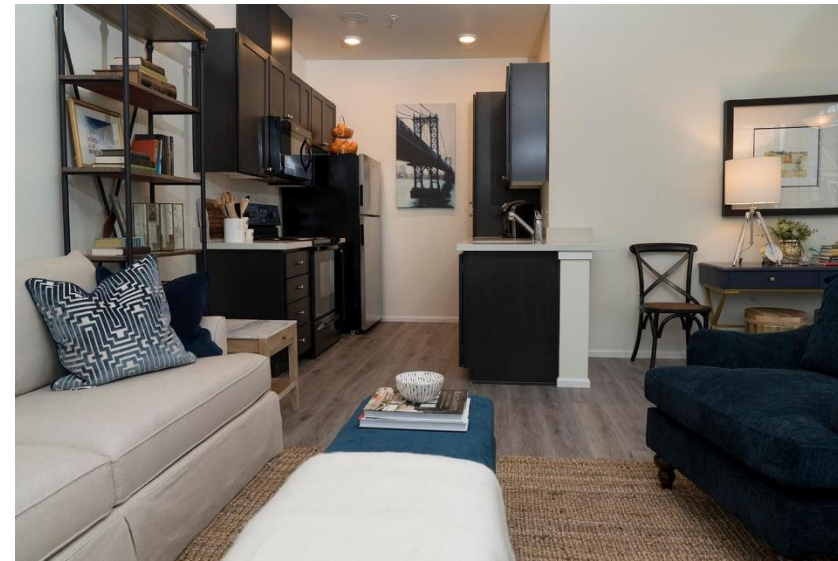
5. DETACHED/ATTACHED APARTMENTS

SOME MOVEMENT HERE AS DEVELOPERS FILL GAP FOR NEEDED TRANSITIONAL LIVING

5100 Summit; Seattle, Washington



- ▶ *Stacked apartments, look like townhomes*
- ▶ *Attached one- and two-car garages*
- ▶ *50% two-bedroom or more*
- ▶ *Average unit size of 1,000 SF*
- ▶ *Rents \$1.66*



6. URBAN RENTAL APARTMENTS FOR FAMILIES

GREEN SHOOTS – AMERICA GOING THE WAY OF EUROPE AND ASIA?

Flats at Cityline; Sunnyvale, California



- ▶ 71% two-bedroom or more
- ▶ Average unit size of 1,100 SF
- ▶ Rents \$4.23
- ▶ Luxury finishes
- ▶ Family-oriented amenities, including indoor and outdoor play space for kids



7. KIN FAMILY RENTAL SERVICE

FAMILY-TARGETED RENTAL APARTMENTS IN URBAN CORES

Kin on Union; New York City, New York



- ▶ *Two buildings in New York, with plans to expand*
- ▶ *Two-bedrooms and three-bedrooms*
- ▶ *Rents starting at \$5,000*
- ▶ *High-quality finishes*
- ▶ *Family-oriented amenities, including a play area*



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 MARKET DATA
5. NOT CLEAR IF THE “JUICE IS WORTH THE SQUEEZE”

REGULATORY ROAD BLOCKS

1. SINGLE-FAMILY ZONING
2. SOME 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 THESE MARKETS?**
5. **WHAT DATA, INFORMATION AND SUPPORT CAN ULI PROVIDE TO ENCOURAGE THE ABOVE?**

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).

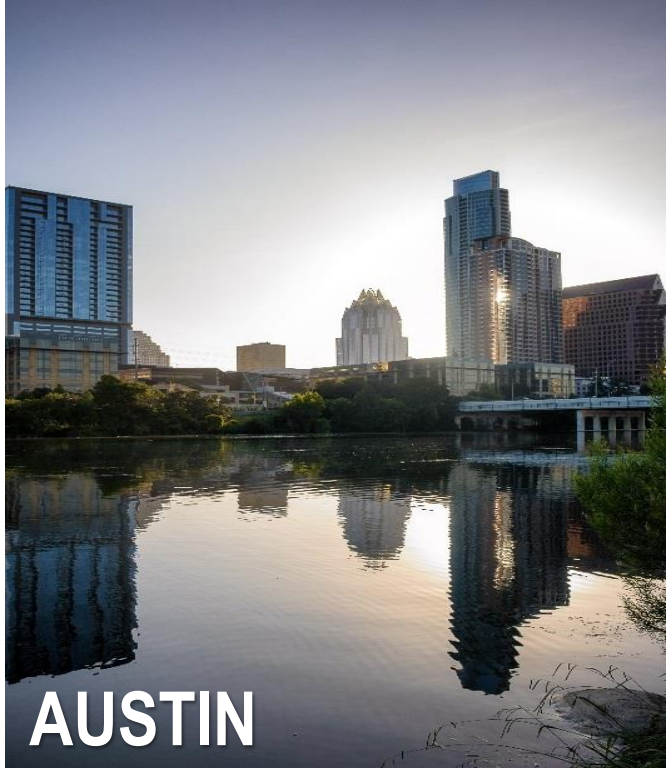
GENERAL LIMITING CONDITIONS

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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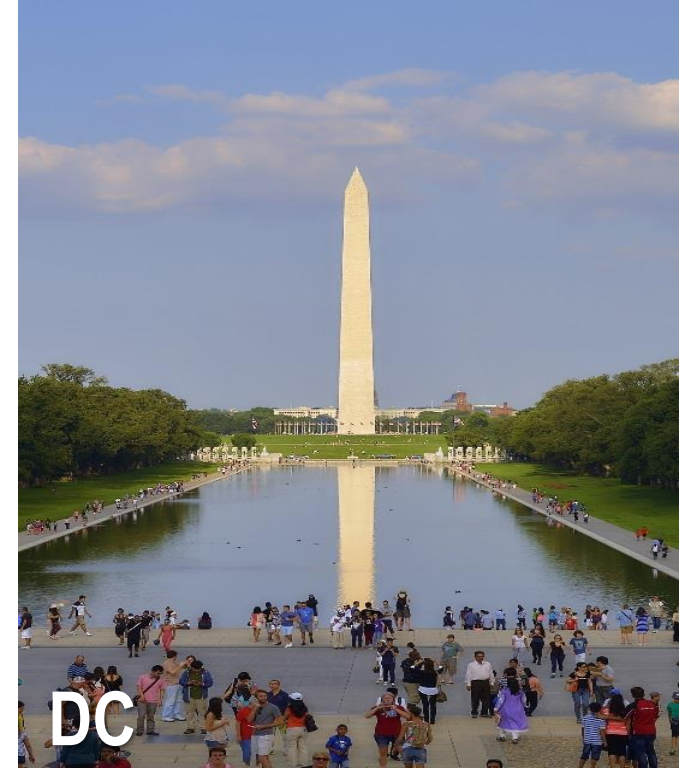
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