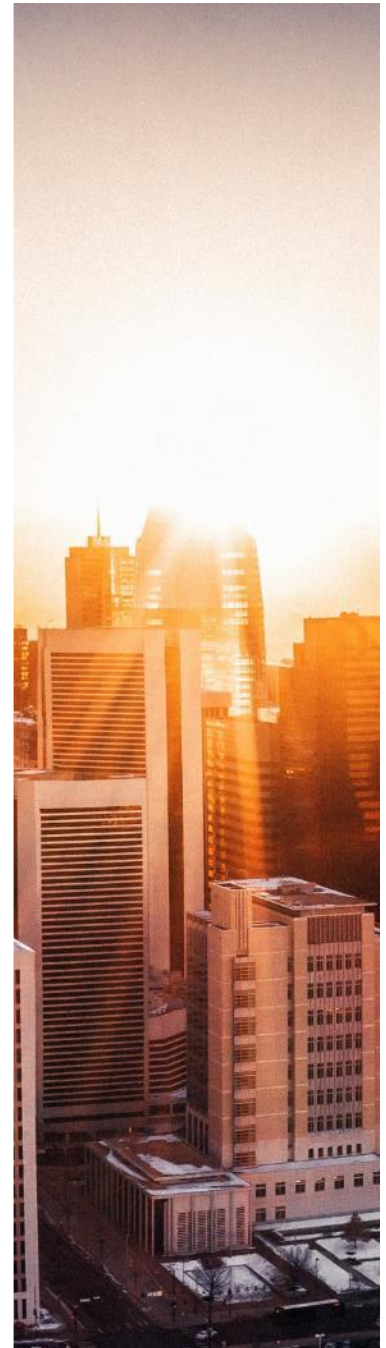
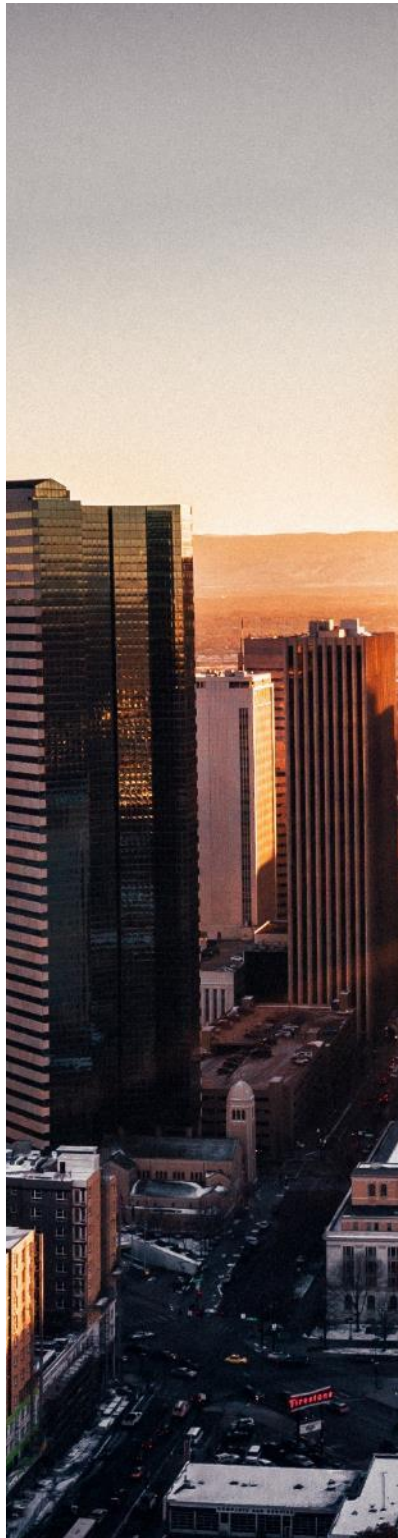


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Q1 2021
RCLCO/RFA HOUSE VIEW

RCLCO RFA HOUSE VIEW – Q1 2021

PURPOSE AND PROCESS

- ▶ The purpose of the RCLCO House View is to develop a firm-wide consensus on key economic, capital market and real estate market conditions over the near term (2-3 years).
- ▶ The process included:
 - » Review of RCLCO Sentiment Survey results
 - » Survey of RCLCO senior management
 - » Review, Feedback and Discussion with senior management
- ▶ The House View will be updated every six months or sooner if economic or capital markets warrant.

RCLCO RFA HOUSE VIEW – Q1 2021

EXECUTIVE SUMMARY

- ▶ COVID-19 materially disrupted the US economy in 2020, leading to a sharp drop in GDP and one of the worst loss of jobs since the Great Depression.
- ▶ The economy started to recover in the second half of 2020, with solid GDP gains and about half of the lost jobs regained.
- ▶ Despite a spike in COVID-19 cases and deaths in the 4th quarter of 2020, the approval and initial roll-out of two highly effective vaccines should limit the long term damage to the economy and lead to a sustained recovery starting in 2021.
- ▶ Capital markets will be buoyed by high stock prices and very low interest rates.
- ▶ Real estate market fundamentals will vary by sector:
 - » Some sectors (industrial, housing, health care real estate, data centers) will have strong demand and investment performance.
 - » Office and hotel recovery will be slow but will eventually approach normalcy.
 - » Retail will continue to struggle with ecommerce competition and surplus supply.
- ▶ Real estate capital markets will be active in 2021-3, due to growth opportunities, low interest rates, and a robust supply of capital/dry powder by a wide range of investors.

RCLCO RFA HOUSE VIEW – Q1 2021

BASE CASE SCENARIO

BASE CASE (75% PROBABILITY)

- ▶ After falling by 3.5% in 2020, U.S. GDP will rebound in 2021 (>4%) and 2022 (>3%) and revert to mean levels (+/-2%) by 2023. GDP will exceed prior peak in late 2021. Upside potential (>6% in 2021) due to pent-up demand and stimulus package.
- ▶ Job growth recovery will lag GDP growth, particularly for lower-paid service, hospitality and retail jobs. Office and professional jobs will resume historic growth rates.
- ▶ Inflation (and bond yields) could temporarily spike in 2021, but long term inflation will stay low. Long-term treasuries will stay low due to labor slack and Federal Reserve policies.
- ▶ The effects of COVID-19 on real estate demand vary by property type:
 - » Demand for multifamily, industrial/warehouse, single family homes (for-sale and rent), and numerous niche sectors (MOB, data centers) will out-pace economic growth.
 - » Office and hotel demand will recover slowly as WFH and reduced business travel will be slow to reverse and will likely reduce long-term demand.
 - » Mall and shopping center sales will rebound when COVID-related restrictions are lifted, but e-commerce will continue to take a greater share of retail sales, resulting in ongoing excess space.
- ▶ Real estate transaction volumes will rebound in 2021, particularly for multifamily, industrial, and select niche property types. Dry powder remains plentiful, despite a decline in fundraising. Inflation and interest rates could spike in 2021, but should remain low in the mid term.
- ▶ Economy and markets support “risk-on” investment strategies.

RCLCO RFA HOUSE VIEW – Q1 2021

DOWNSIDE CASE SCENARIO

DOWNSIDE (25% PROBABILITY)

- ▶ COVID immunization efforts falter, resulting in renewed shutdowns. U.S. GDP stalls in 2021 and 2022 (although >0%).
- ▶ Job growth slows materially.
- ▶ Inflation remains low and long-term treasuries fall under 1% again as Federal Reserves resumes stimulative monetary policy.
- ▶ Office, retail and hotel demand/usage stay low, resulting in further deterioration in market fundamentals and increased foreclosures and distress.
- ▶ Little impact to single family demand (for-sale and rental) and supply as COVID-related trends continue.
- ▶ Real estate investors turn cautious and transaction volumes stagnate.

RCLCO RFA HOUSE VIEW – Q1 2021

BASE CASE SCENARIO - 75% PROBABILITY

- ▶ Solid economic rebound in 2021 - 2022 before moderating to the long-term average.
- ▶ Very strong job recovery except for sectors hit hard by COVID-19, such as retail and hospitality.
- ▶ Real estate markets improve, particularly in 2022.
- ▶ Economy and capital markets support risk-on investment strategies.

<i>Economy</i>	2019	2020	2021	2022	2023	20-Year Avg.
GDP	2.2%	-3.5%	4-4.5%	3-3.5%	2-3%	2.1%
Job Change (M)	2.13	-8.80	3-3.5	3.5-4	2-3	1.06
10 Year Treasury (YE)	1.9%	0.9%	1-1.5%	1.5-2%	2-2.5%	3.3%

<i>Real Estate Metrics</i>	2019	2020	2021	2022	2023	20-Year Avg.
Transaction Volume (\$B)	571	335	400-450	450-500	450-500	343
NPI Returns	6.4%	3-5%	4-6%	5-7%	6-8%	9.1%
Wtd. Avg. Rent Growth	3.2%	0-1%	2-3%	4-5%	3-4%	1.6%
Total Home Starts (000)	1,295	1,380	1,300-1400	1,400-1,500	1,400-1,500	1,271
SF Home Starts (000)	893	988	1,000-1,100	1,000-1,100	1,100-1,200	954
SF Home Price Change	5.1%	8.3%	5-6%	4-5%	3-5%	3.9%

RCLCO RFA HOUSE VIEW – Q1 2021

DOWNSIDE SCENARIO - 25% PROBABILITY

- ▶ Economy stalls due to COVID-19 re-spread (or other factors).
- ▶ Job growth slows materially.
- ▶ Investment market stalls due to uncertainty.
- ▶ 10 Year Treasury stays low, but credit availability tightens.

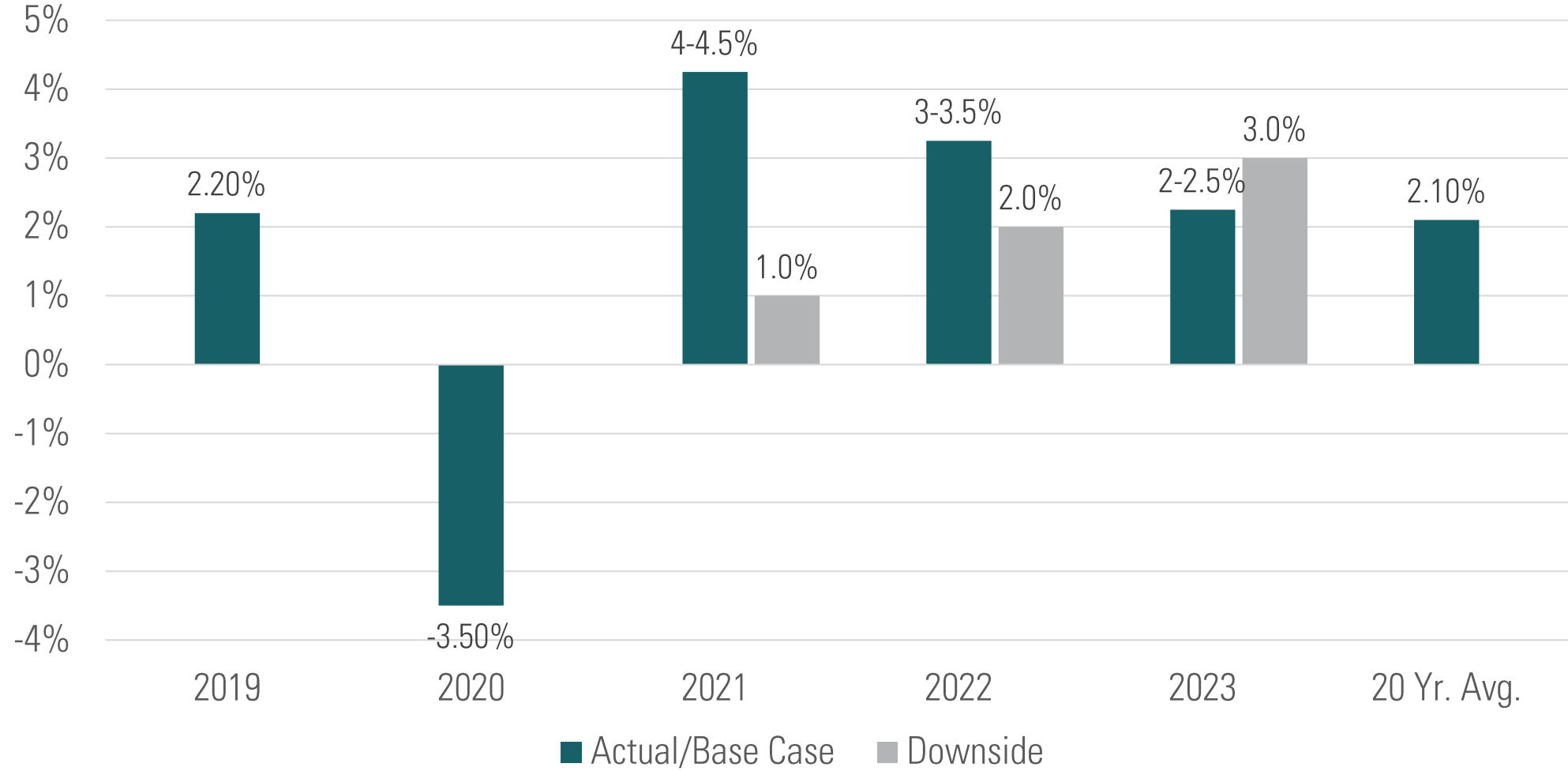
<i>Economy</i>	2019	2020	2021	2022	2023	Comment
GDP	2.2%	-3.5%	0.5-1.5%	1.5-2.5%	2.5-3.5%	No recession.
Job Change (M)	2.13	-8.80	1-2	2-3	3-4	
10 Year Treasury	1.9%	0.9%	0.5-1.0%	0.5-1.0%	1-1.5%	Fed keeps base rate near 0%

<i>Real Estate Metrics</i>	2019	2020	2021	2022	2023	
Transaction Volume (\$B)	571	335	300-350	350-400	350-400	Tighter lending.
NPI Returns	6.4%	0.1%	0-2%	2-4%	4-6%	
Wtd. Avg. Rent Growth	3.2%	0.1%	0-1%	0-2%	2-3%	Retail and office negative in '21.
Total Home Starts (000)	1,295	1,380	1,200-1,300	1,300-1,400	1,300-1,400	Housing market stays healthy
SF Home Starts (000)	893	988	950-1,050	1,000-1,100	1,000-1,100	
SF Home Price Change	5.1%	8.3%	2-4%	3-4%	3-4%	

HOUSE VIEW – GDP GROWTH SCENARIOS

SOLID BASE CASE WITH NO RECESSION IN DOWNSIDE

Annual US GDP Forecast



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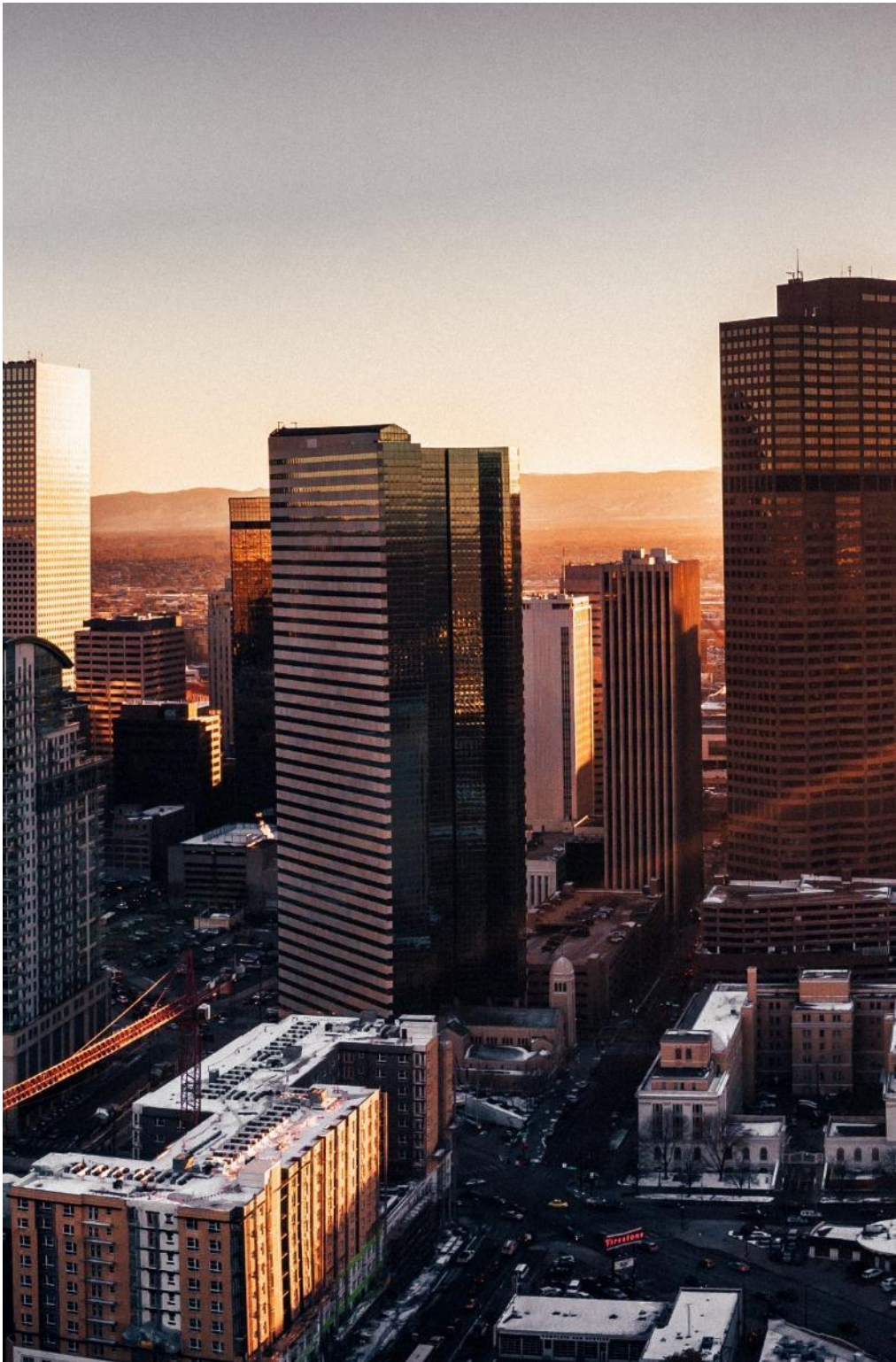
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The charts depicted within this presentation are for illustrative purposes only and are not indicative of future performance.



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