



REAL ESTATE MARKET SENTIMENT SURVEY RESULTS RCLCO Monthly Round-Up

Charles A. Hewlett Managing Director

William Maher Director of Strategy and Research

Kelly Mangold Principal

RCLCO
REAL ESTATE CONSULTING

TODAY'S PANELISTS



Charles A. Hewlett

Managing Director

P: (240) 644-1006

E: chewlett@rclco.com



William Maher

Director of Strategy and Research

P: (301) 455-5295

E: wmaher@rclco.com



Kelly Mangold

Principal

P: (240) 669-5638

E: kmangold@rclco.com

AGENDA

Sentiment Survey Results

RCLCO POV

Real Estate Market Fundamentals and Returns

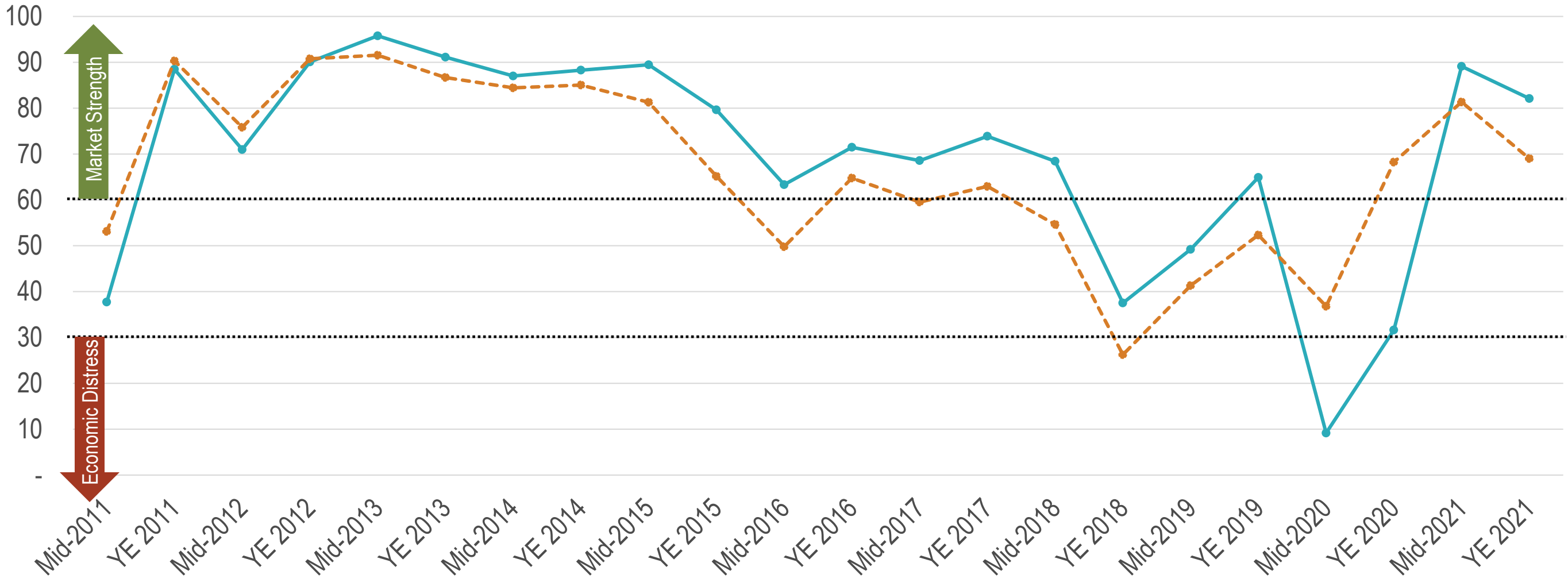
Q&A

SENTIMENT SURVEY RESULTS

SLIGHT DECLINE SINCE MID-YEAR, YET REMAINS STRONG

CURRENT RMI INDEX AT 82, DOWN FROM 89

RCLCO National Real Estate Market Index

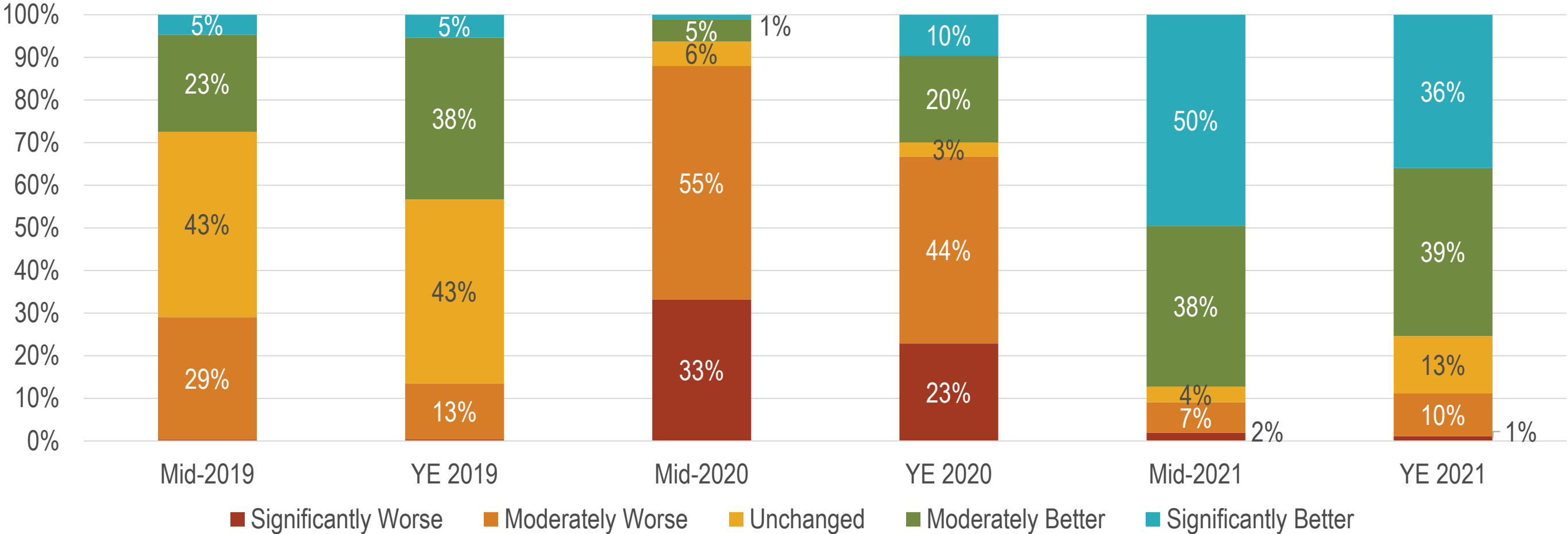


—●— Current RMI US - - - ● - - - Predicted (12 Month) RMI US

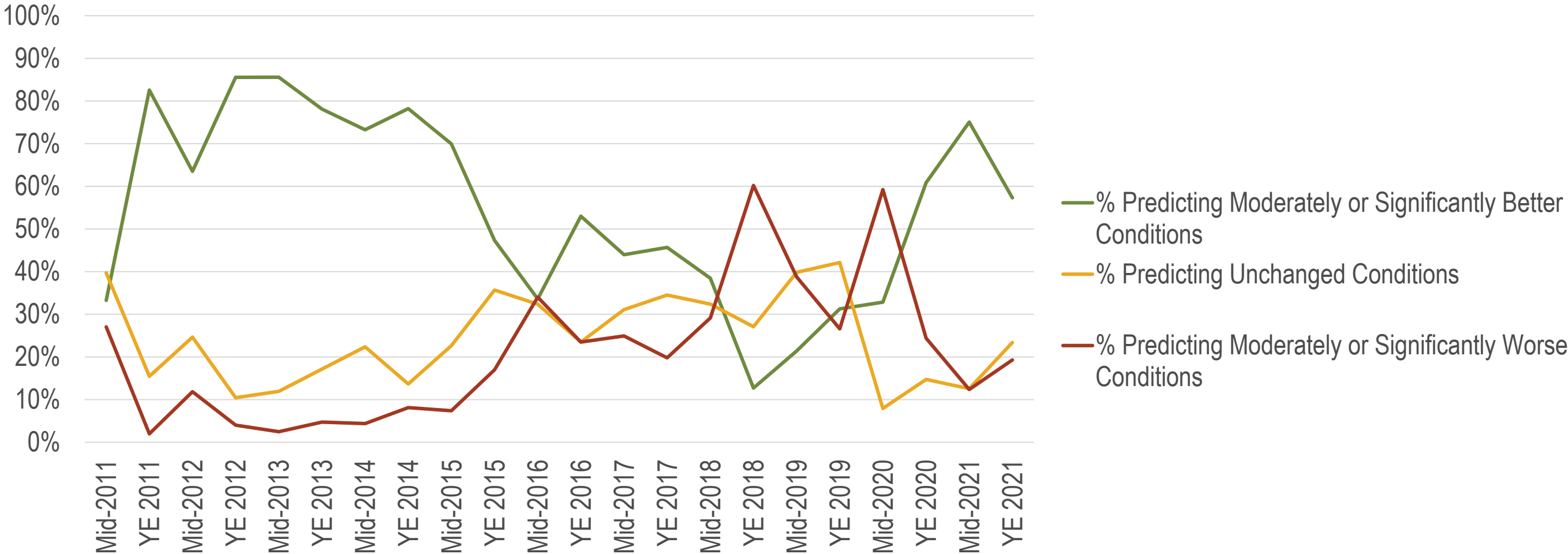
75% BELIEVE CONDITIONS ARE IMPROVING

DOWN FROM 88% AT MID-YEAR

How Would You Rate National Real Estate Market Conditions Today Compared With 1 Year Ago?
 Current U.S. Market Sentiment over Time



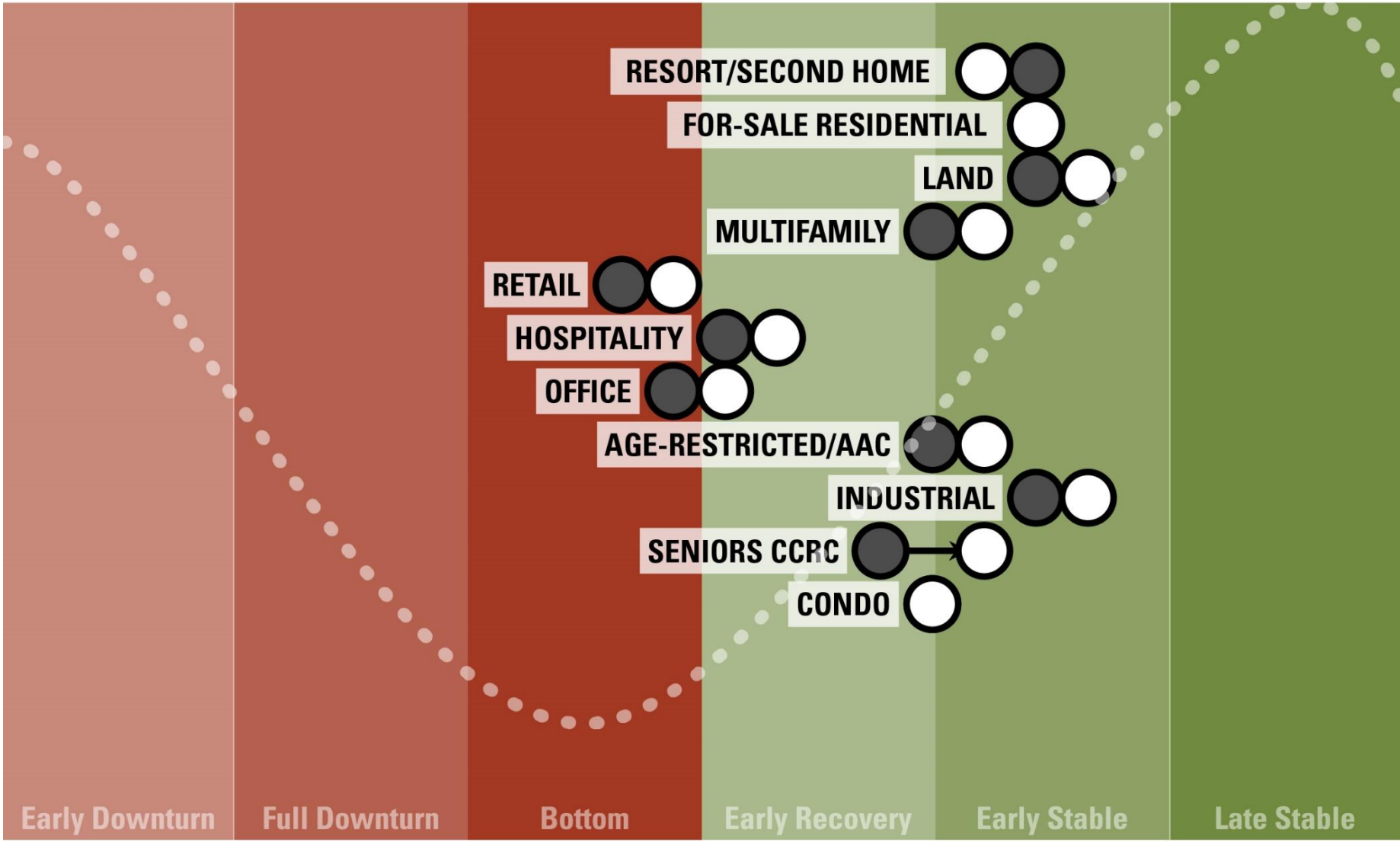
12-MONTH FORWARD U.S. REAL ESTATE MARKET PREDICTIONS OVER TIME



CYCLE STAGE MOVEMENT OVER SIX MONTHS

Cycle Stage Movement over Past Six Months

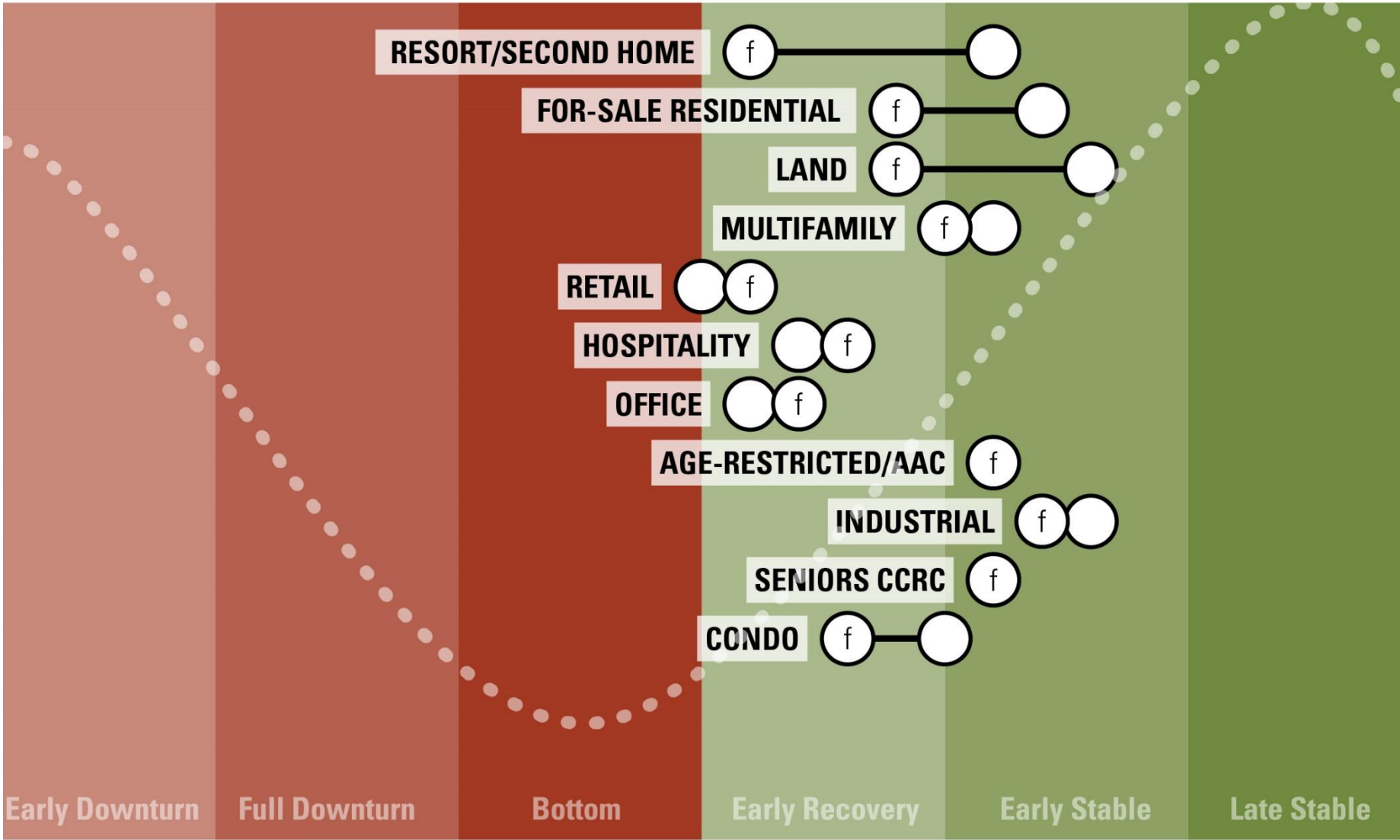
● Mid-2021 ● YE 2021



PREDICTED CYCLE STAGE MOVEMENTS

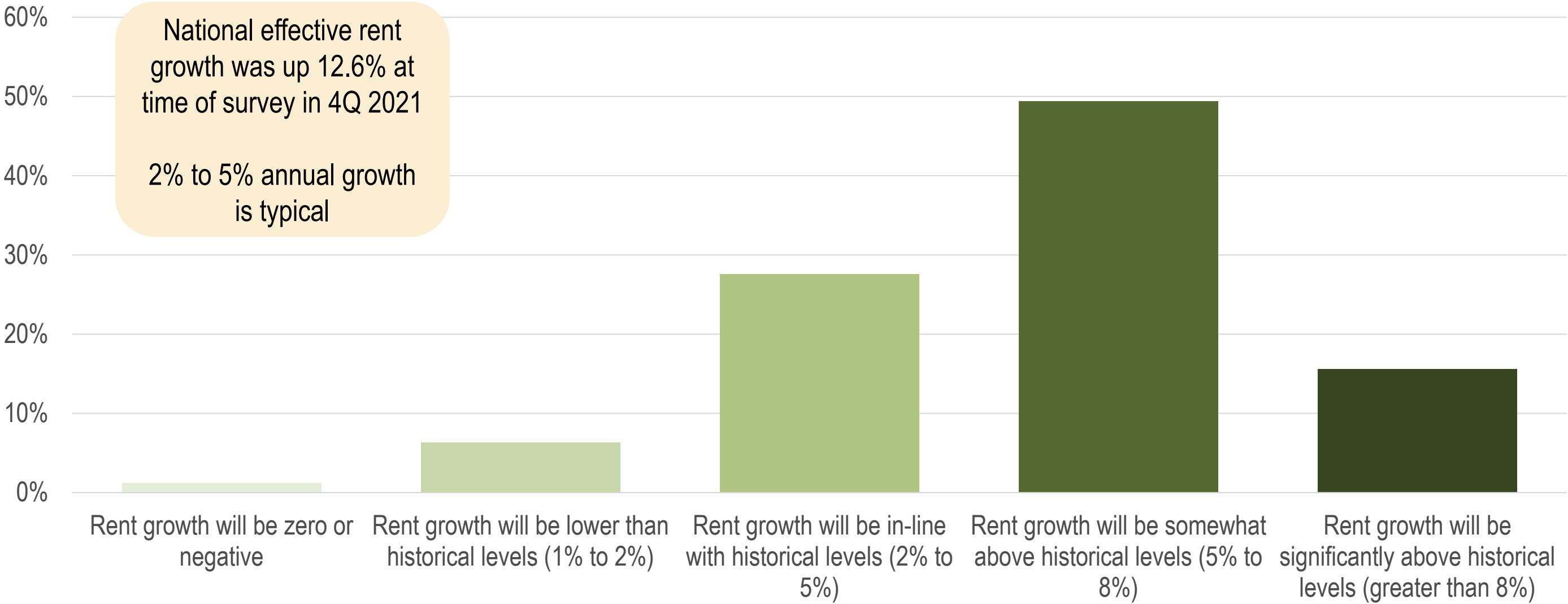
RCLCO Real Estate Cycle Chart

○ Current Cycle Stage (f) Future Cycle Stage



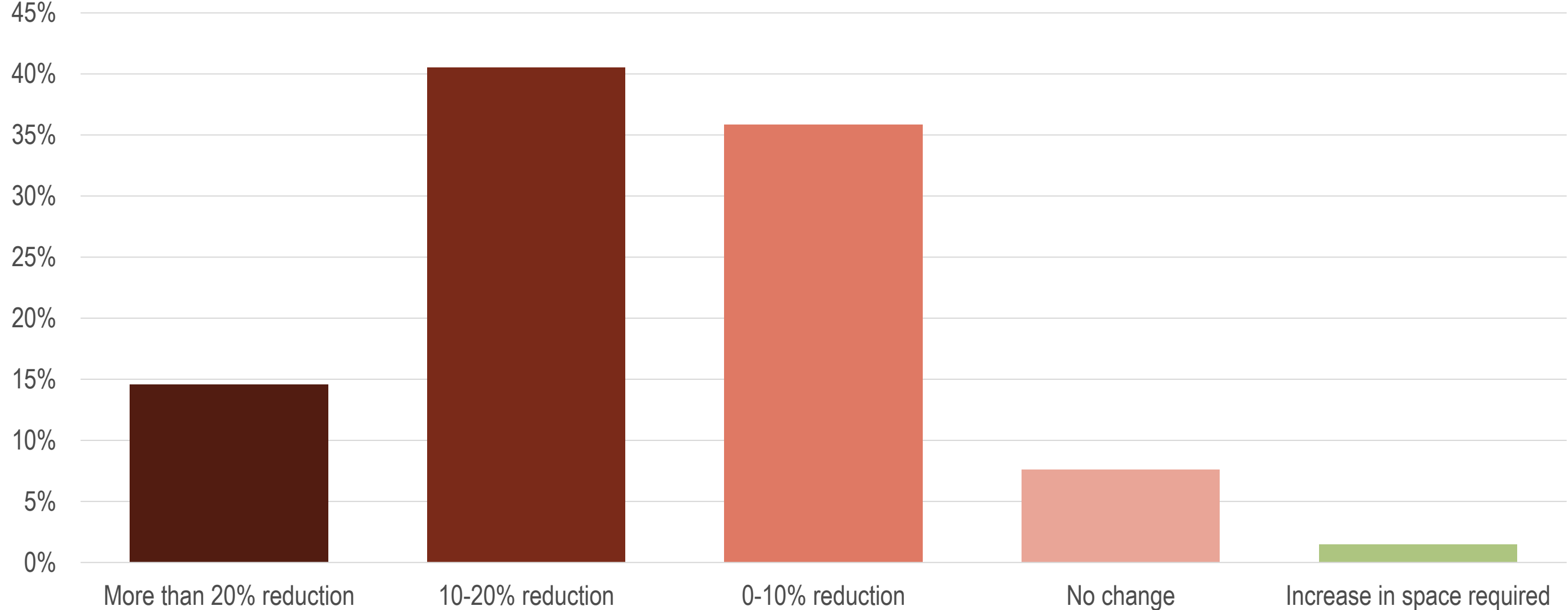
EXPECTED APARTMENT RENT GROWTH IN 2022

Respondents asked to predict national growth for next year, after 2021's historical rent gains



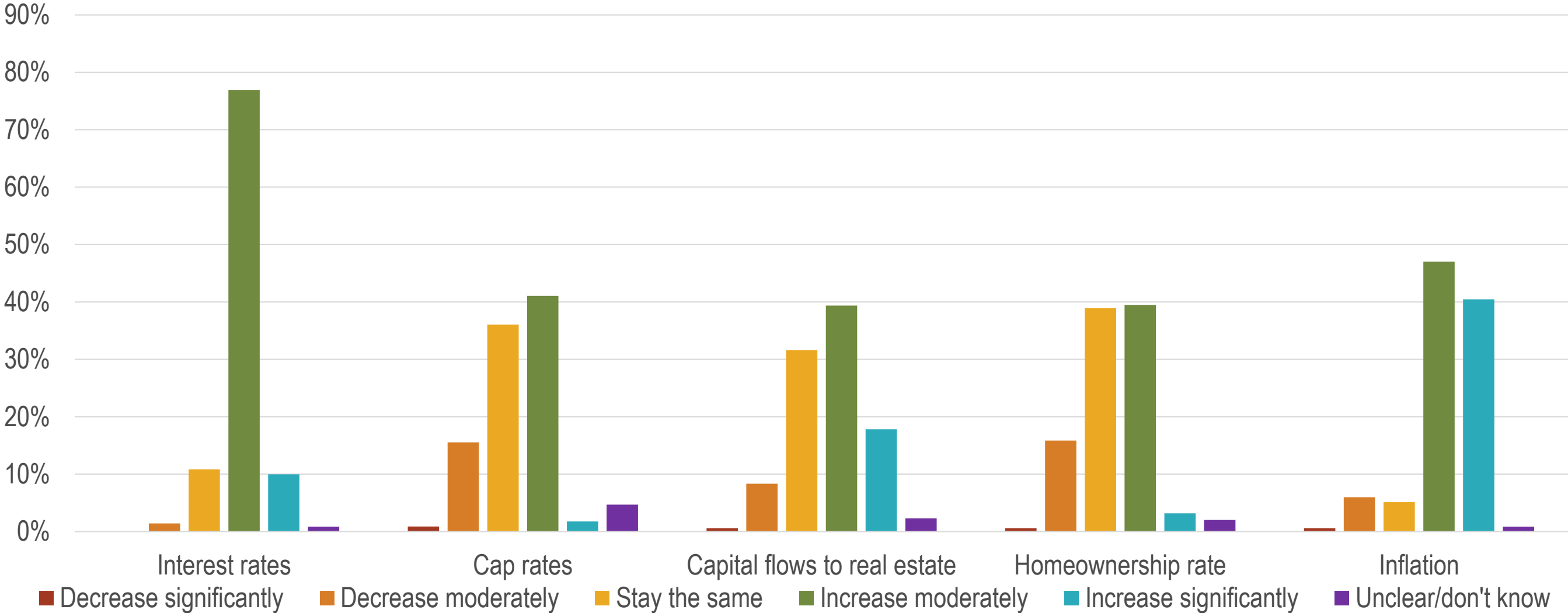
COVID-19 IMPACT ON OFFICE DEMAND

Respondents asked to predict pandemic's impact on pre-Covid demand estimates



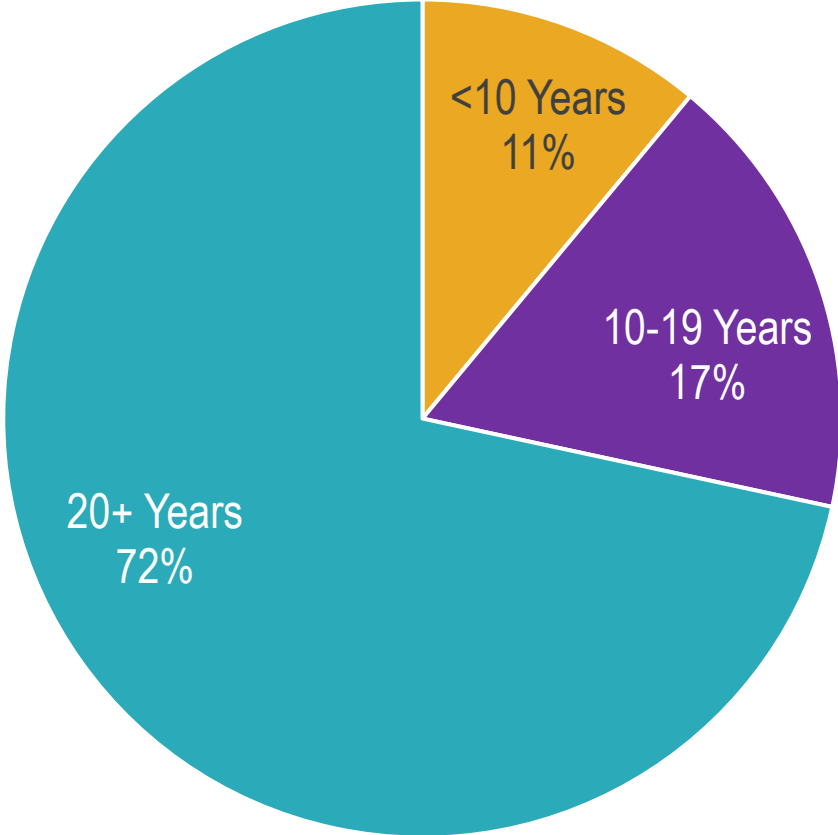
ECONOMIC INDICATORS IN 12 MONTHS

Forward looking projections

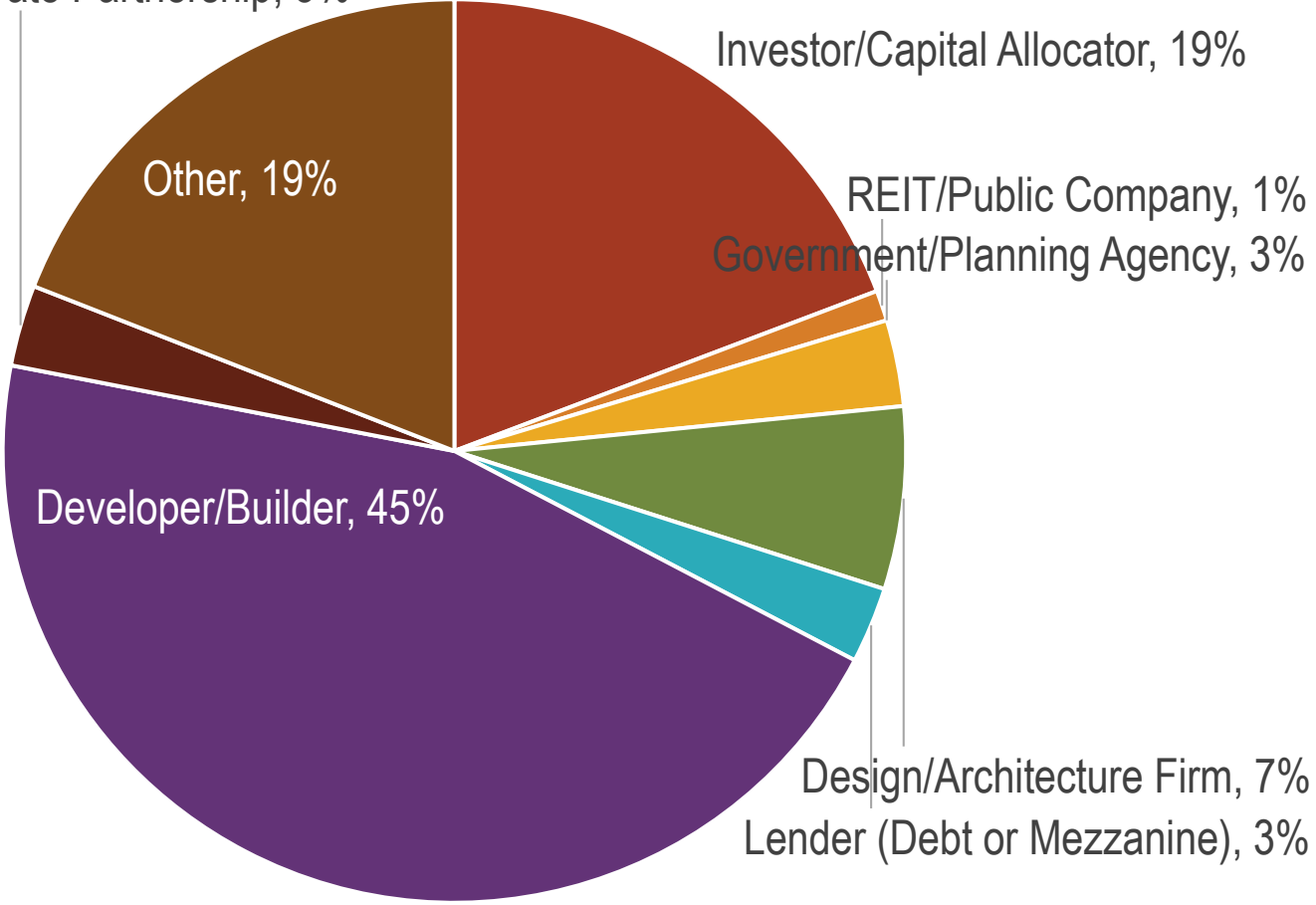


WHO TOOK THE SURVEY?

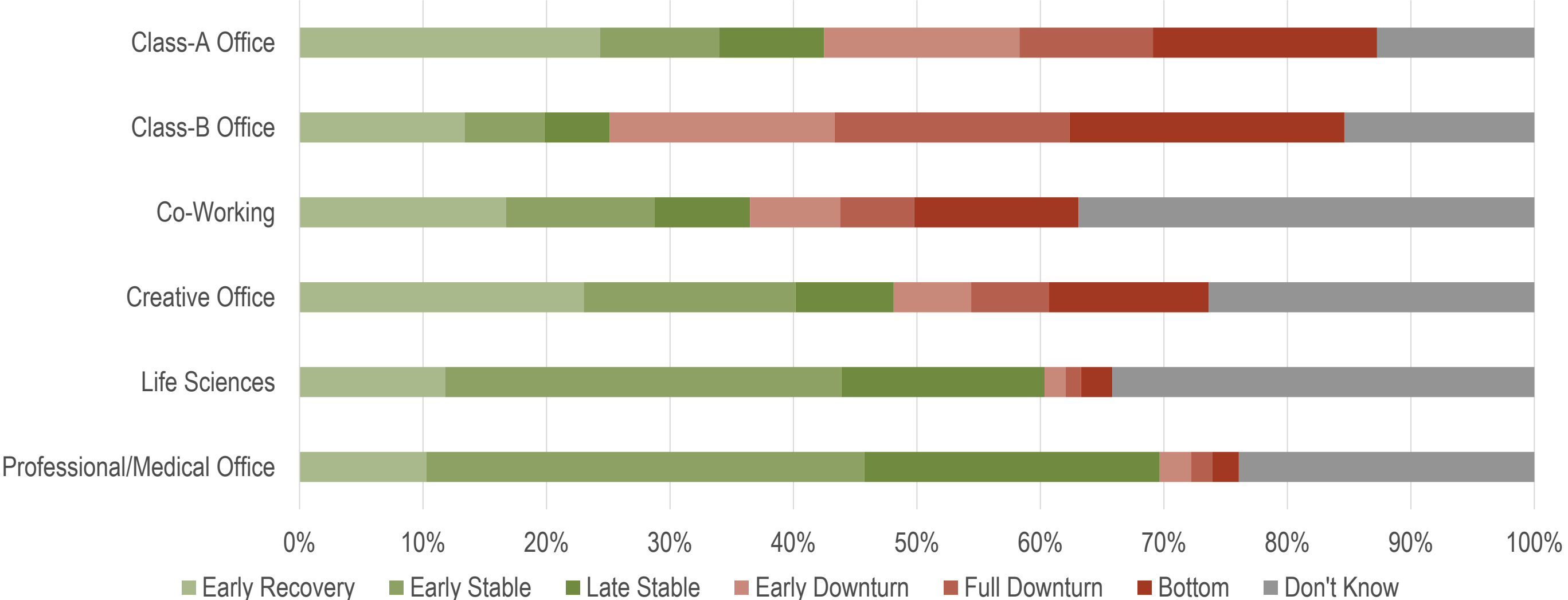
Years of Experience in Real Estate



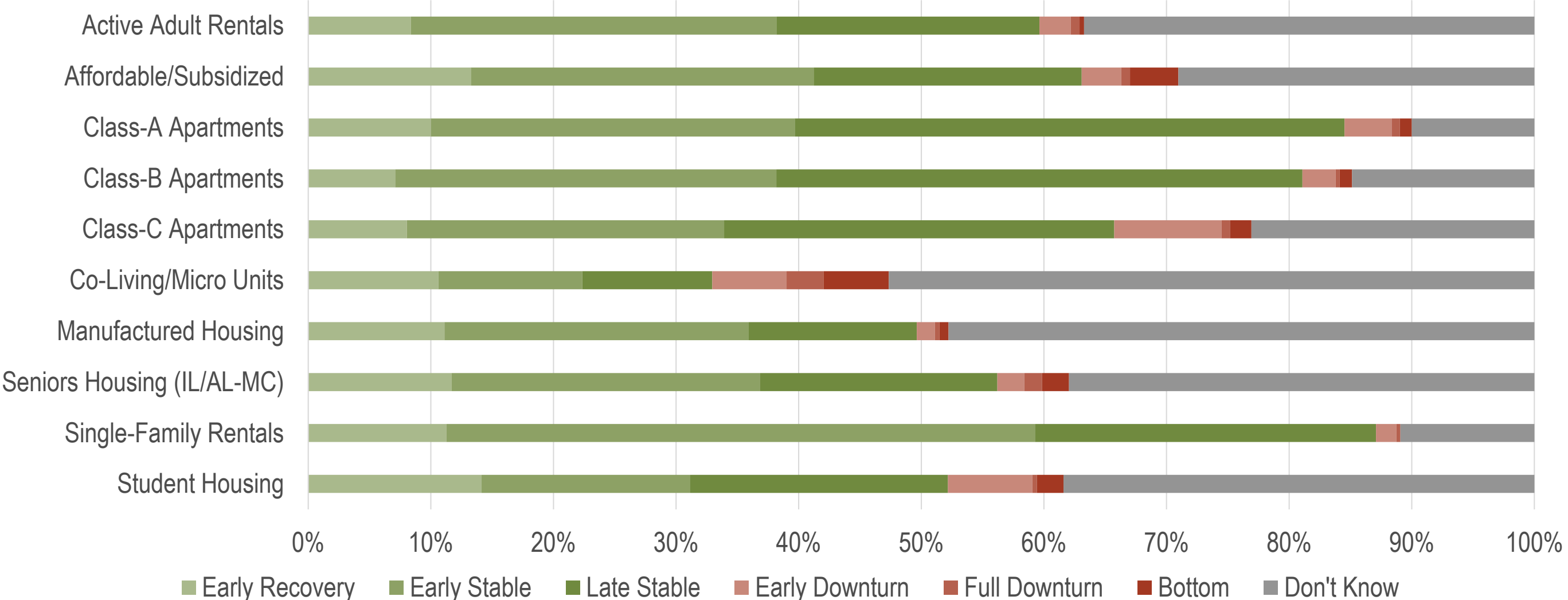
Nonprofit or Public-Private Partnership, 3%



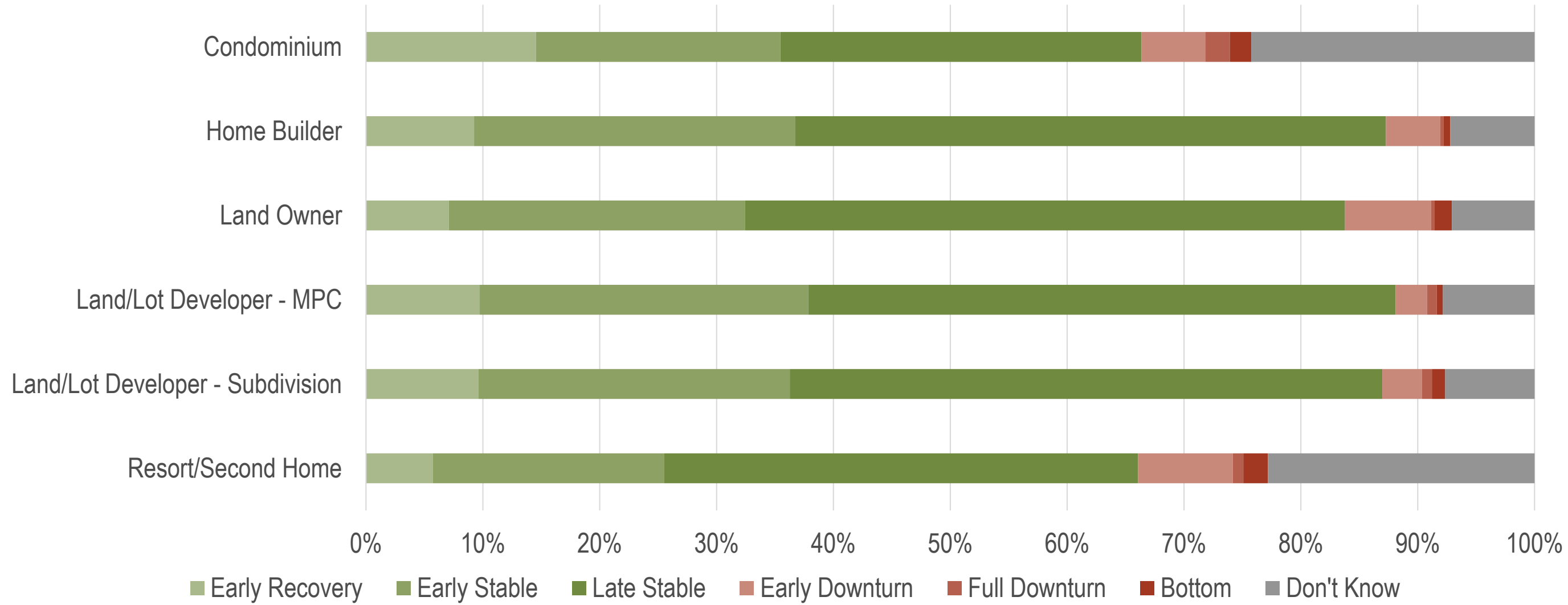
OFFICE - TODAY



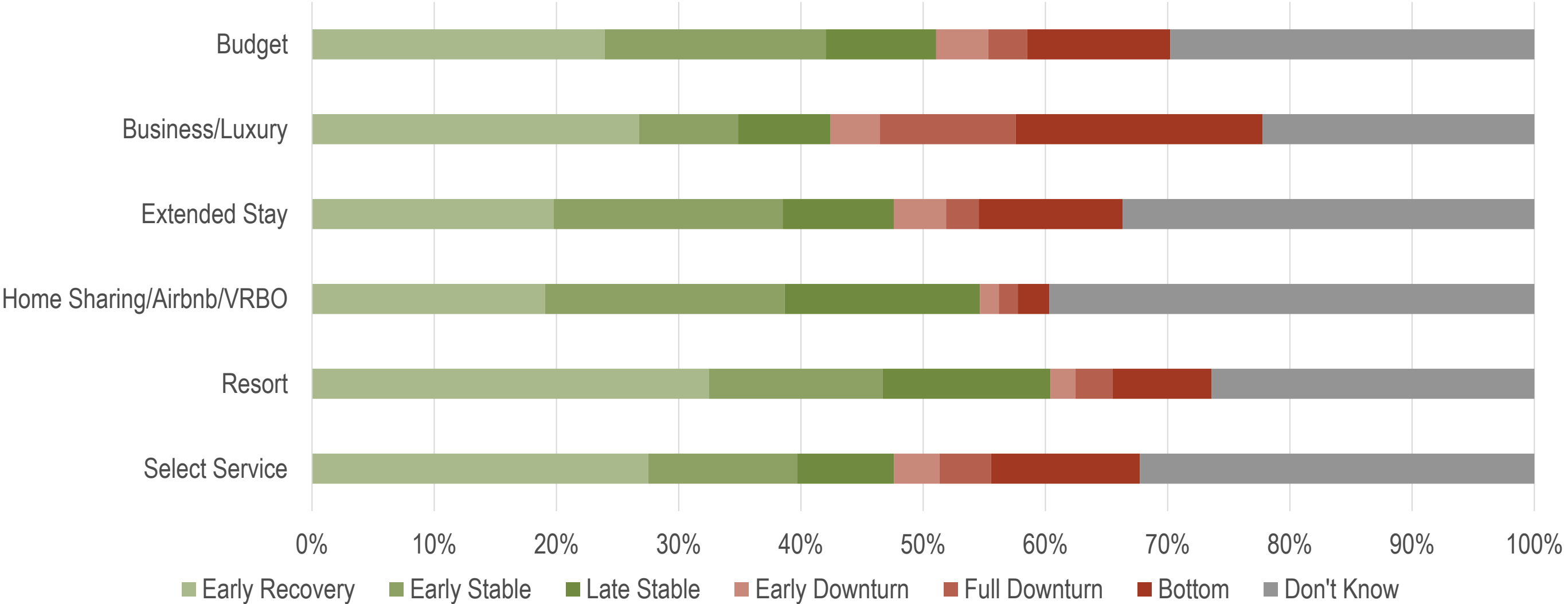
FOR-RENT RESIDENTIAL - TODAY



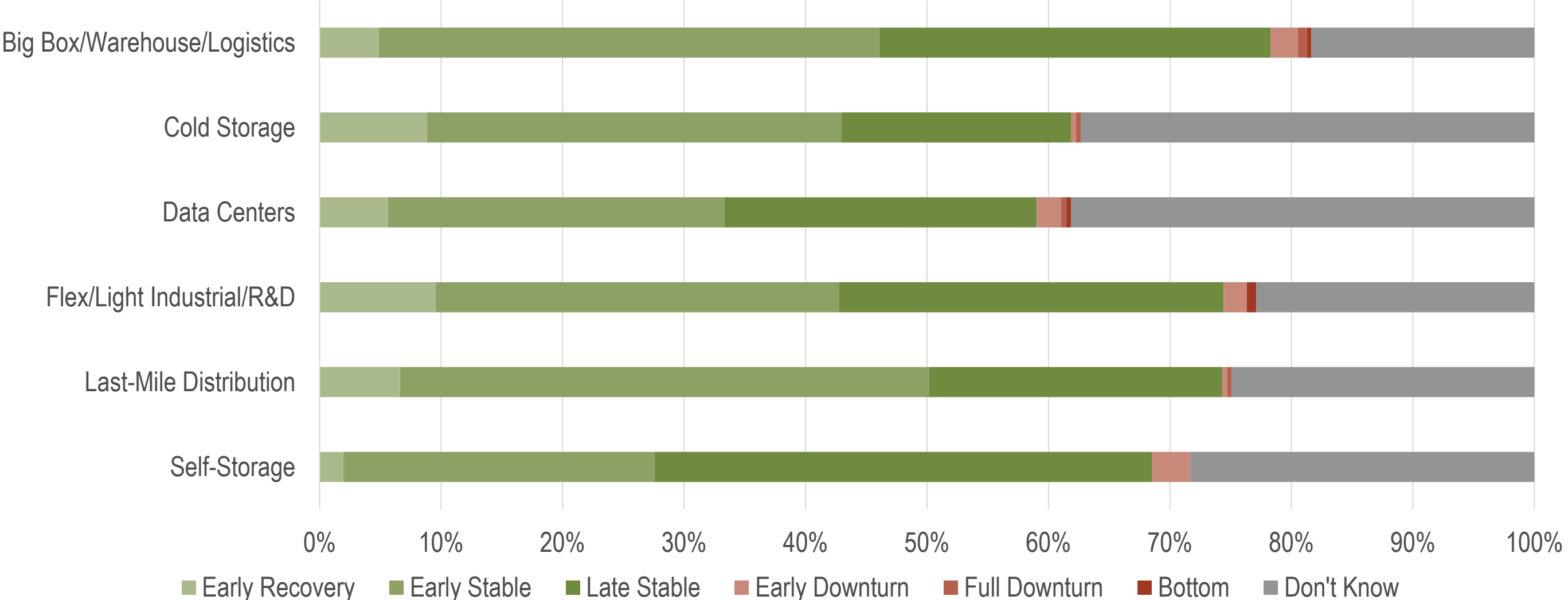
FOR-SALE RESIDENTIAL - TODAY



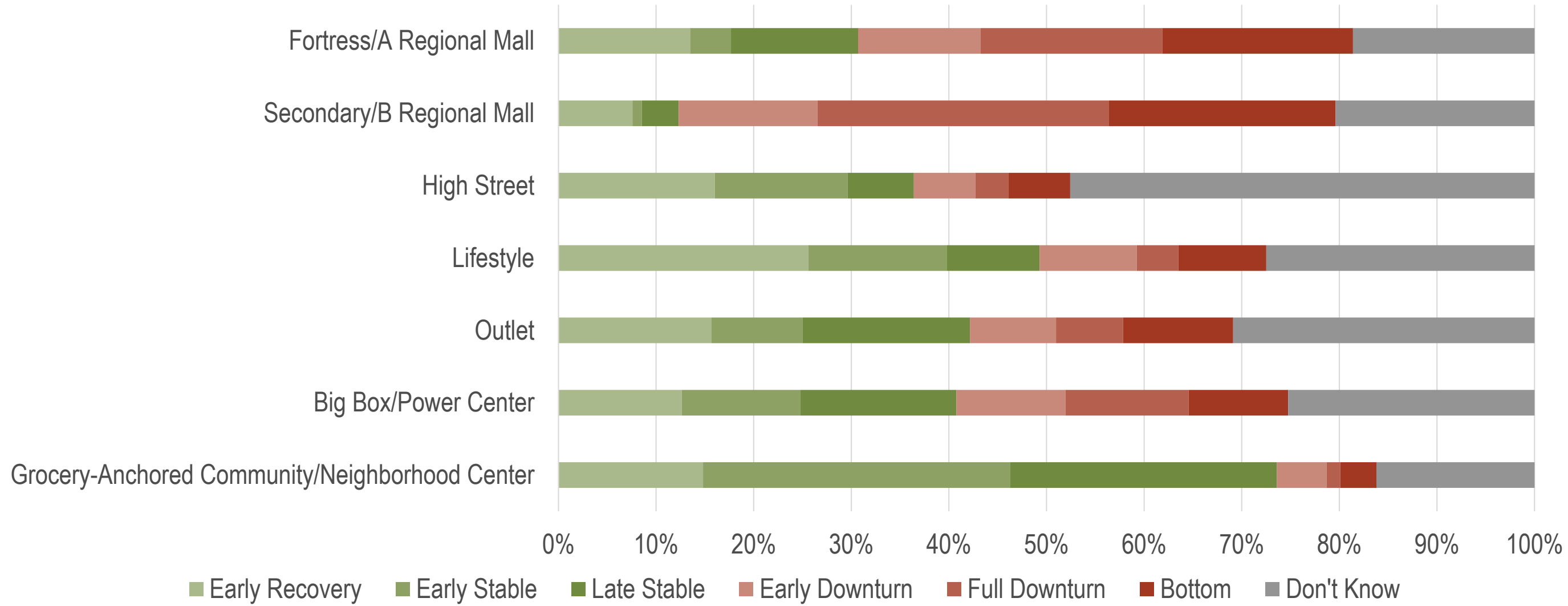
HOSPITALITY - TODAY



INDUSTRIAL - TODAY



RETAIL - TODAY



RCLCO POV

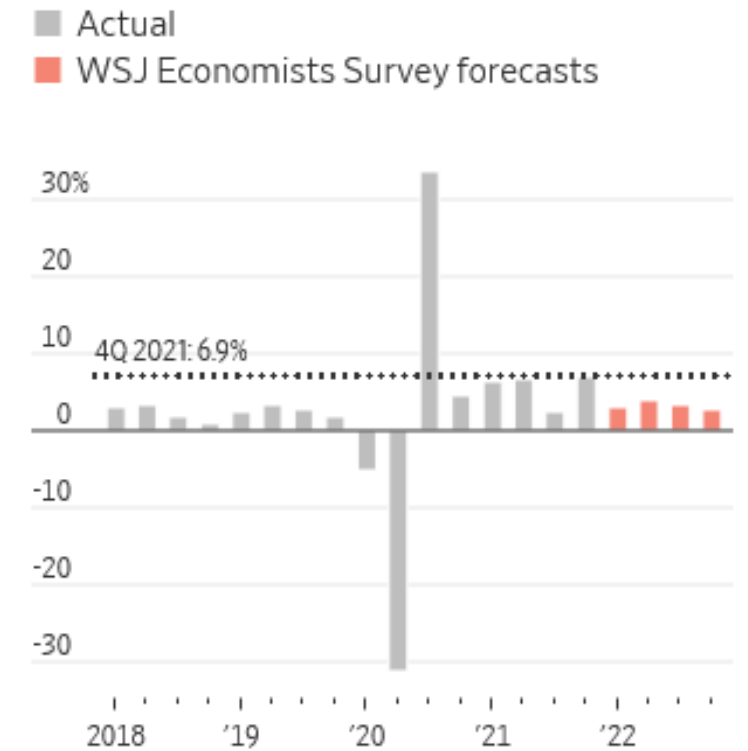
RCLCO POV

Easing Supply Constraints Should Support Continued Growth in 2022 – Risk Factors Aplenty

THINGS TO FEEL GOOD ABOUT:

- ▶ U.S. economy grew at **6.9%** rate in Q4 2021 – the biggest gain since 1984
- ▶ U.S. employment has recouped **85%** of COVID job losses
- ▶ Unemployment lowest since February 2020 at **3.9%**
- ▶ Labor force participation highest since February 2020 at **61.9%**
- ▶ U.S. economy forecasted to add **4.4** million jobs in 2022
 - » October and November payrolls were revised upwards a combined **141,000** jobs
- ▶ Omicron wave is receding rapidly in some of the hardest hit regions in the country
- ▶ GDP growth is expected to continue to gain momentum in 2022
 - » Defeat of the Biden BBB plan in the Senate has reduced long-term growth forecasts
 - » However, lack of additional stimulus will likely reduce demand and dampen inflationary pressures

U.S. GDP, change from previous quarter*

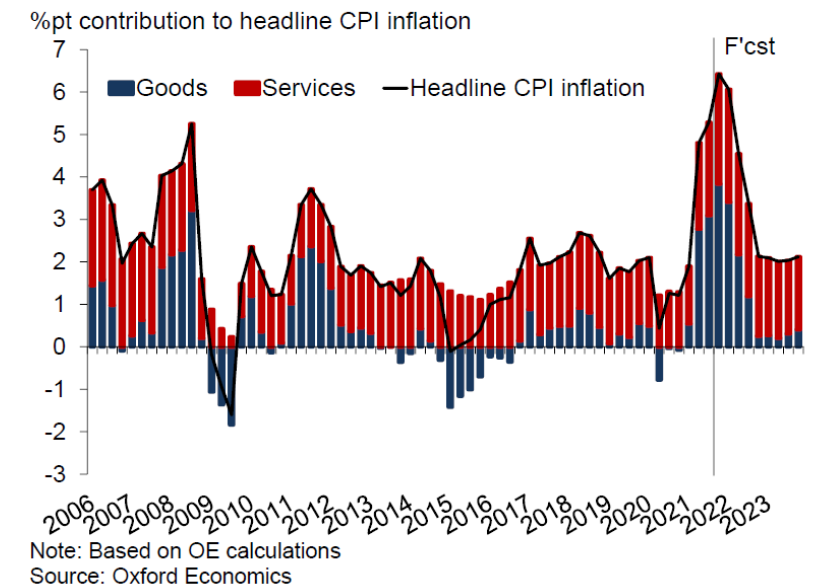


RCLCO POV

THINGS TO FEEL NERVOUS ABOUT:

- ▶ U.S. economy capped 2021 on a mixed note...
 - » Job growth rose a weaker than expected **199,000** in December
- ▶ Labor force participation is still **1.5** points below pre-pandemic levels
 - » Rising participation is critical to meeting the forecasted job growth
- ▶ Supply chains have improved, but remain a critical issue driving inflation and dampening retail sales
 - » COVID-19 Omicron variant is hampering efforts to clear backlog of **100** container ships at the ports of LA and LB
 - » **800** dockworkers representing nearly **1** in **10** of the daily workforce at these ports were unavailable due to infections
- ▶ Inflation is expected to remain elevated through Q1 until supply/demand imbalances ease and inflation moderates in H2 2022
 - » Consumer prices reached a **7%** annual rate in 2021, the highest rate since June 1982
- ▶ Fed is likely to begin raising rates in March, with **4** rates hikes in total in 2022
 - » In addition, balance sheet reduction (quantitative tightening) likely starts mid-year

US: Goods and services inflation



RCLCO POV

POSSIBLE WILD CARD EVENTS:



- ▶ Lingering Pandemic Risk
 - » Additional variant surges dampens recovery



- ▶ Growing Geopolitical Risk
 - » The Ukraine Factor plunges the globe into conflict



- ▶ Likely Legislative Risk
 - » Divided government – results in paralysis (this is probably good for you and me)

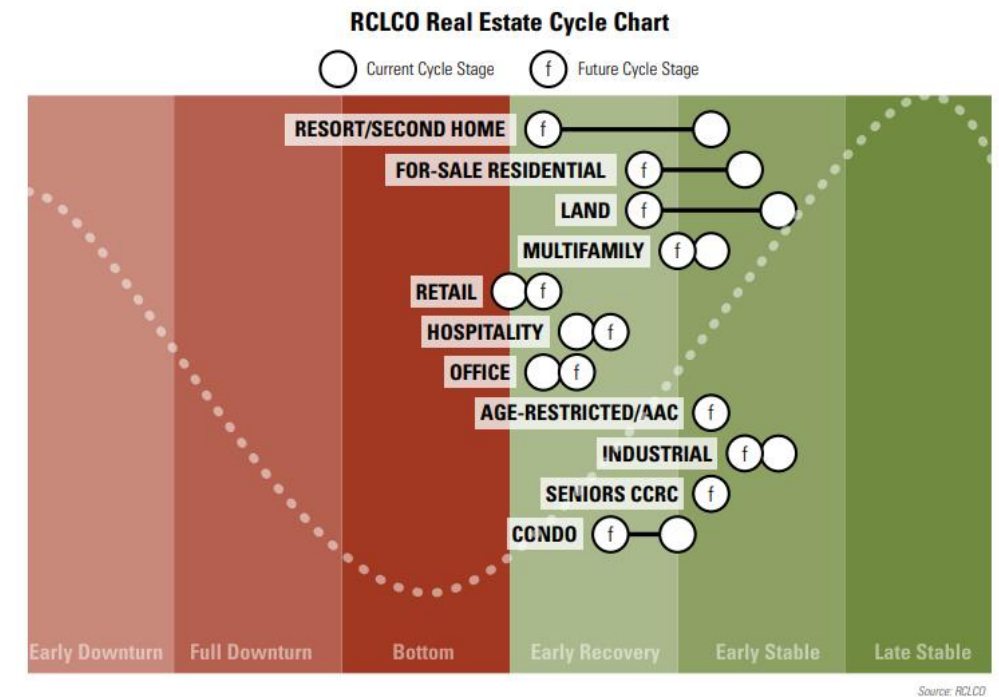


- ▶ Inflation Risk
 - » Conventional wisdom continues to get it wrong

RCLCO POV

IMPACTS FOR REAL ESTATE:

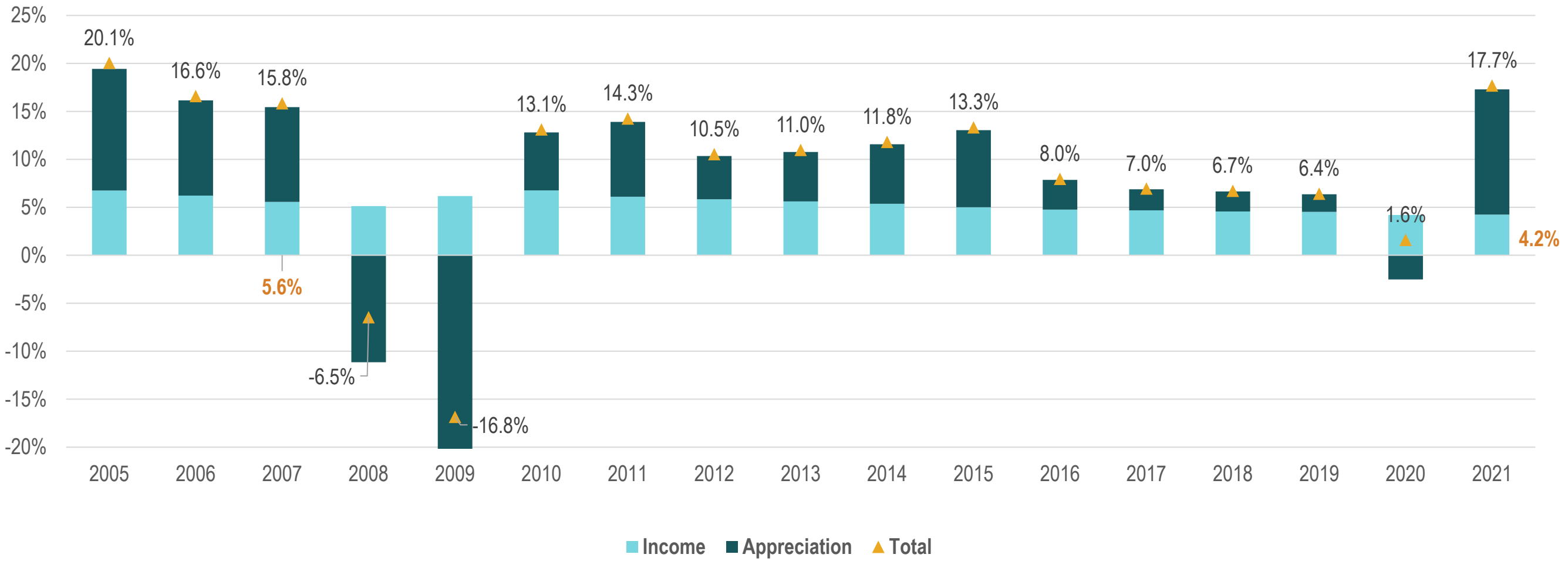
- ▶ Rising interest rates could put downward pressure on CRE values & moderate demand for for-sale housing
 - » However, pent-up demand & historically low rates in the housing sector will likely keep this sector healthy
 - » New home sales at 10-month high in December
- ▶ Multifamily and single-family (both for-sale and for-rent) remain strong given supply/demand fundamentals
- ▶ Industrial/logistics demand remains robust
 - » Drivers: ecommerce penetration & just-in-case inventory strategies
- ▶ Niche sectors remain favored asset classes and are likely to outperform
 - » Medical office & data centers
- ▶ Office and hotel demand continues to recover more slowly
 - » Drivers: remote work & reduced business travel will be slow to reverse
- ▶ Retail will continue to reinvent itself (this is actually not new, but accelerated)
 - » Service/necessity and experiential retail continuing to gain momentum
 - » Other retail segments impacted by changing consumer behavior and ecommerce will struggle



MARKET FUNDAMENTALS

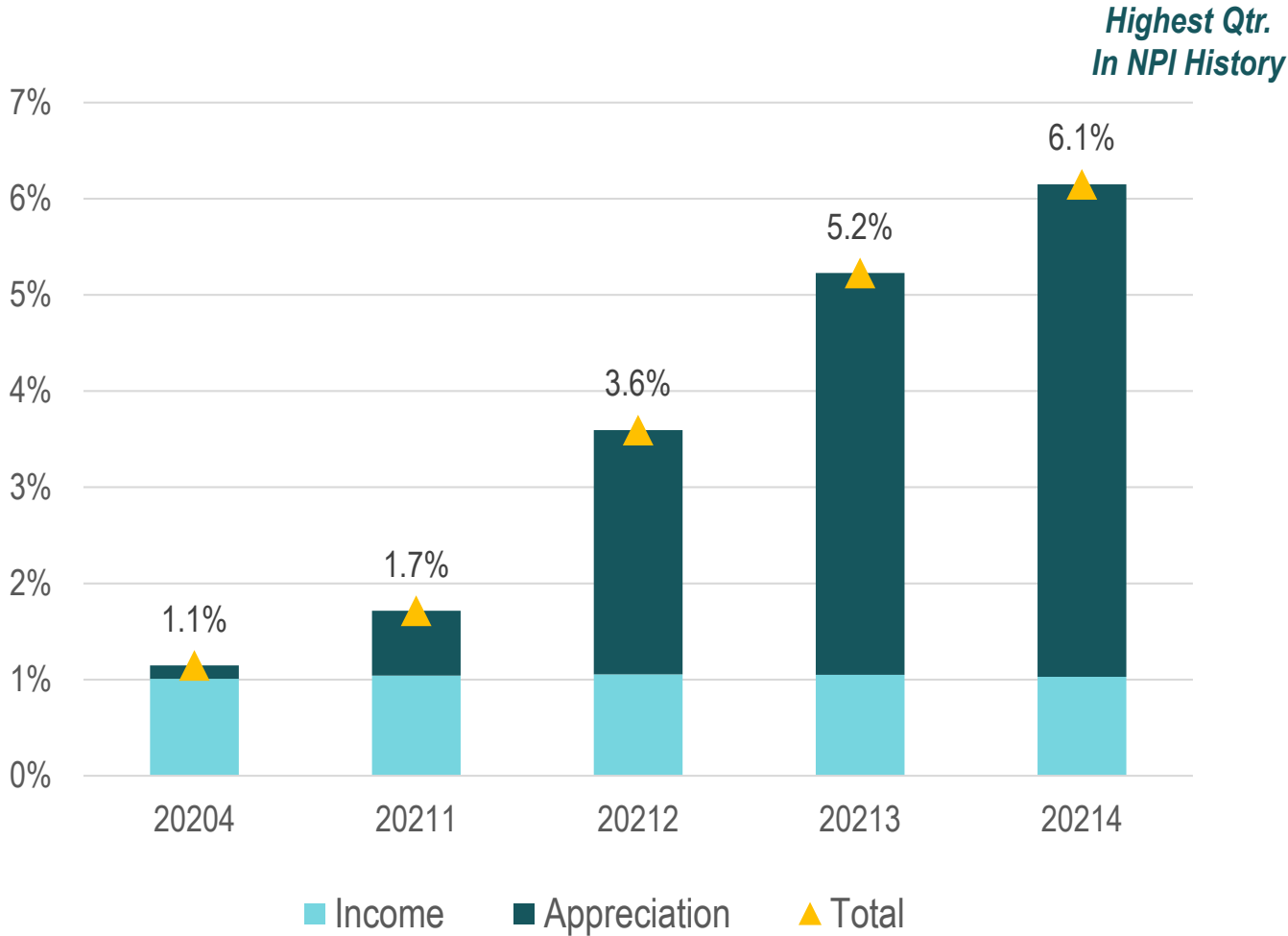
NPI RETURNS END 2021 CLOSE TO RECORD HIGH

Annual NPI Returns

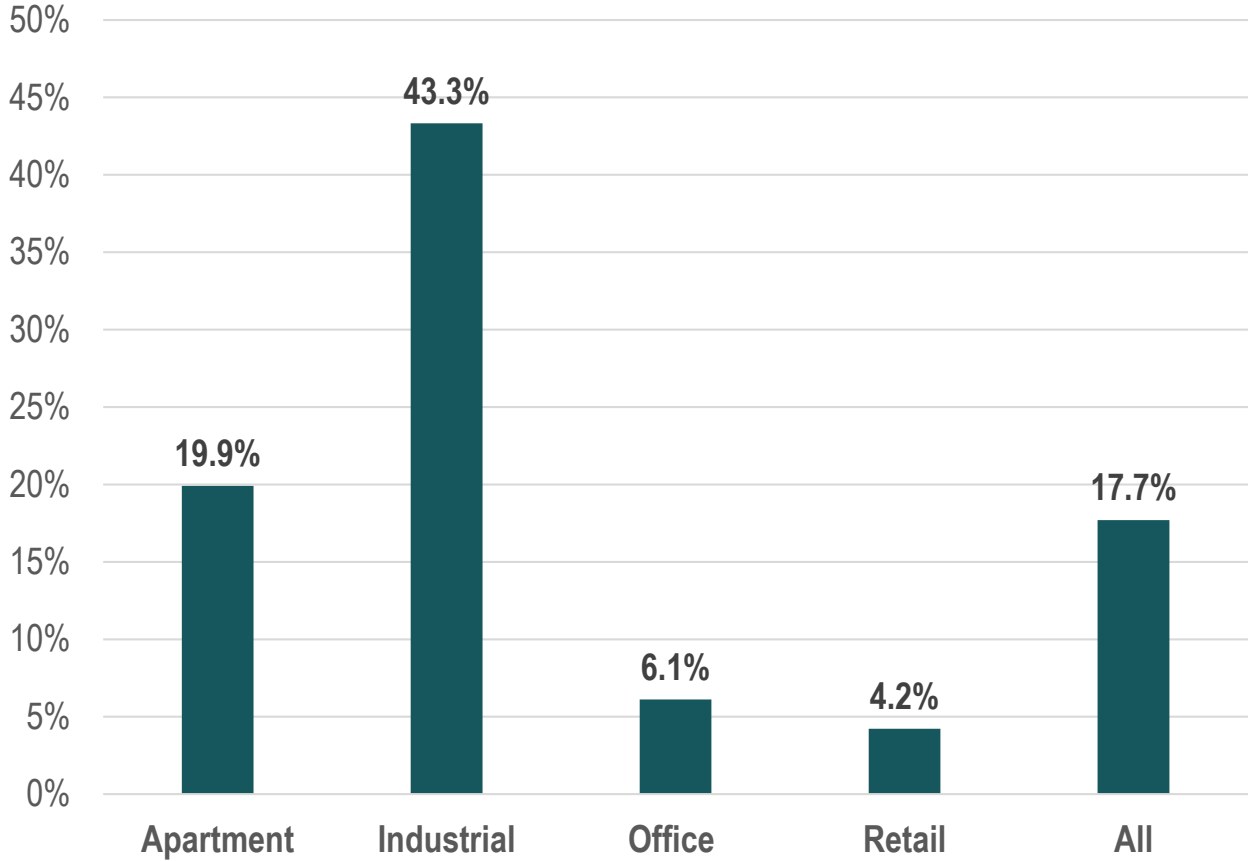


NPI RETURNS END 2021 CLOSE TO RECORD HIGH

Quarterly NPI Returns

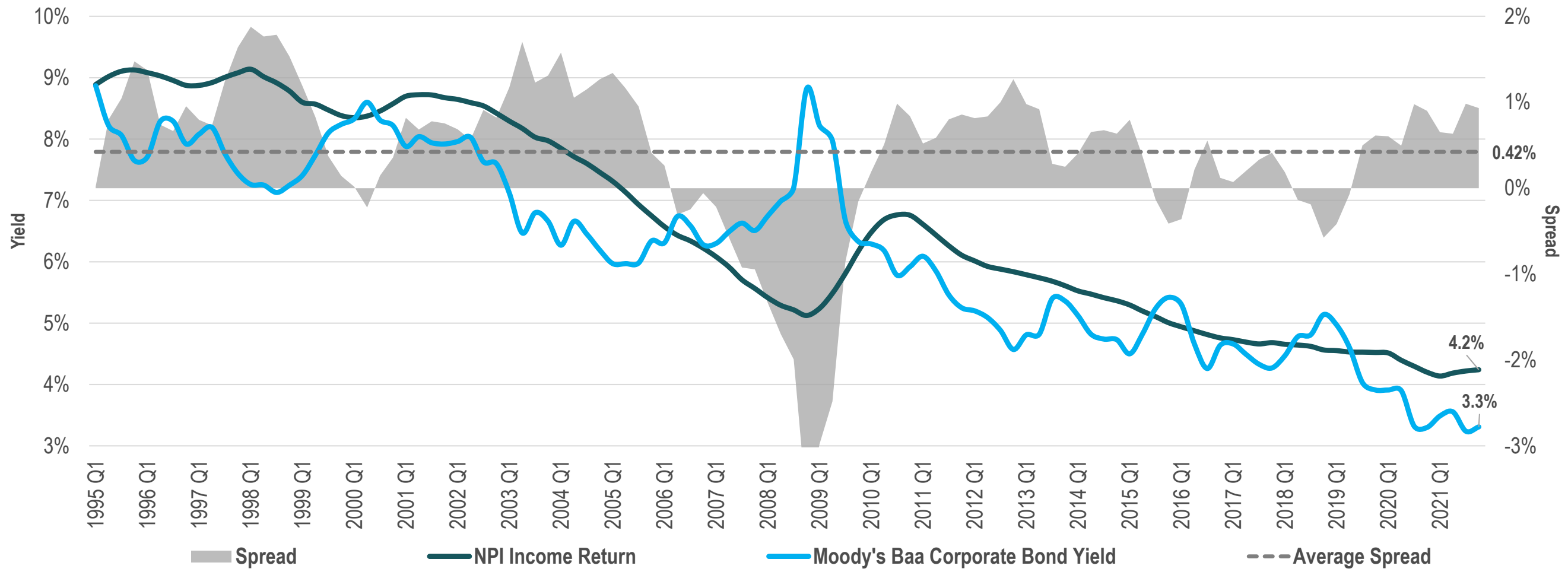


Total Return by NPI Property Type, 4Q Ending 4Q 2021



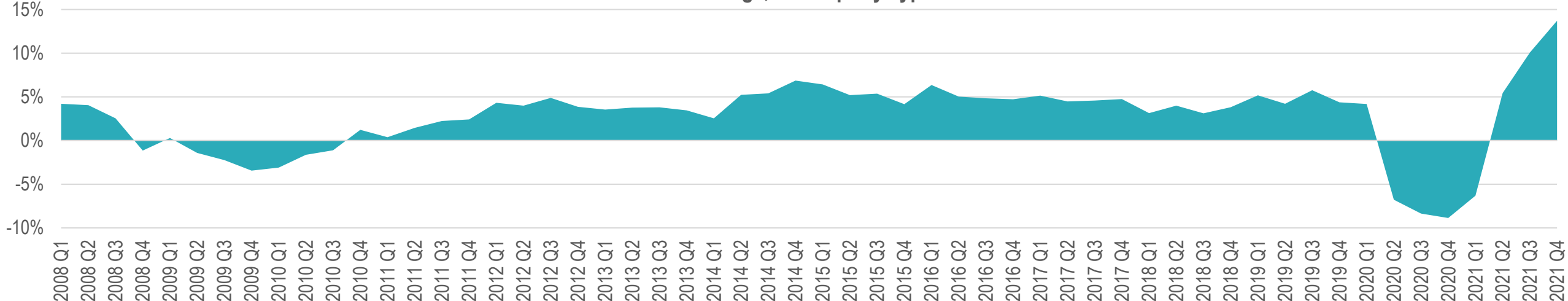
NPI INCOME SPREAD TO BAA ABOVE LT AVERAGE

NPI Income and Baa Bond Yields, Spreads

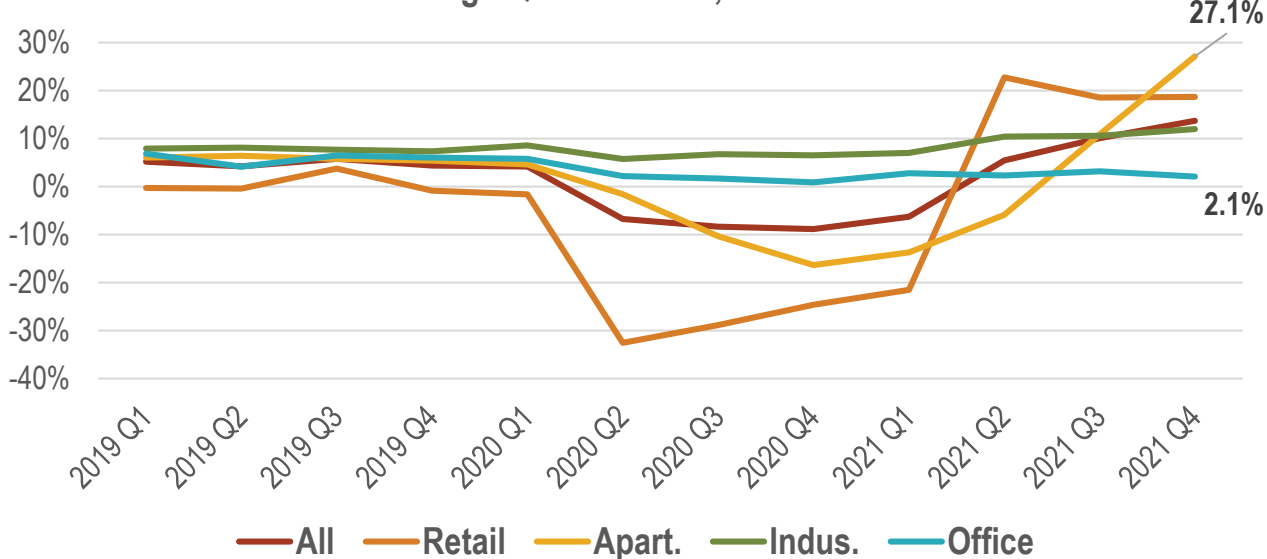


INDUSTRIAL AND APARTMENT NOI ABOVE PRE-COVID

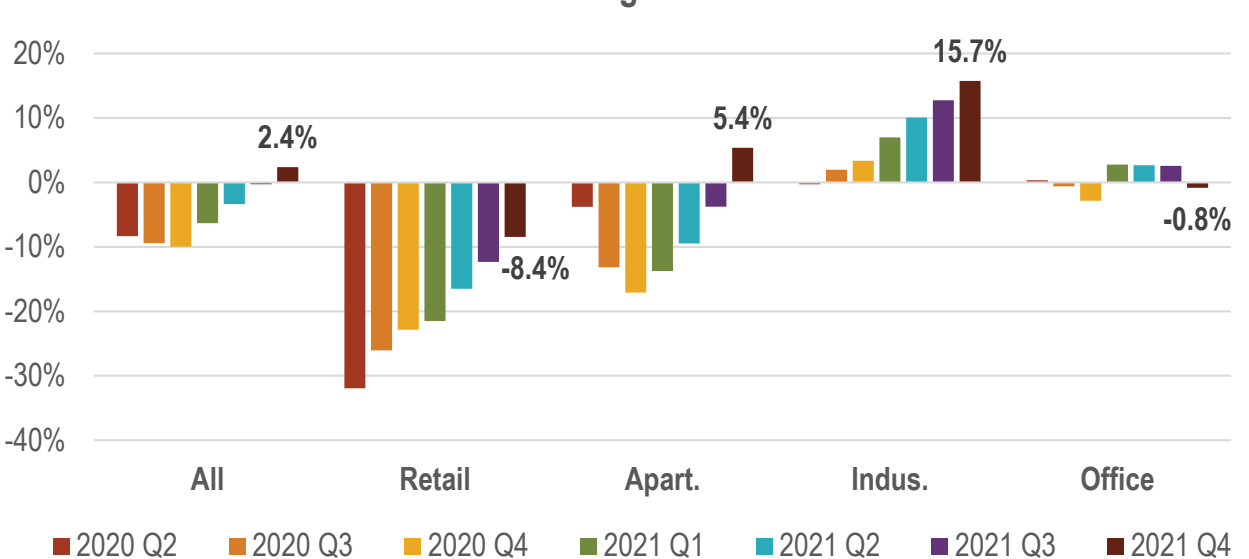
4Q NOI Change, All Property Types



Rolling 4Q NOI Growth, since 2019

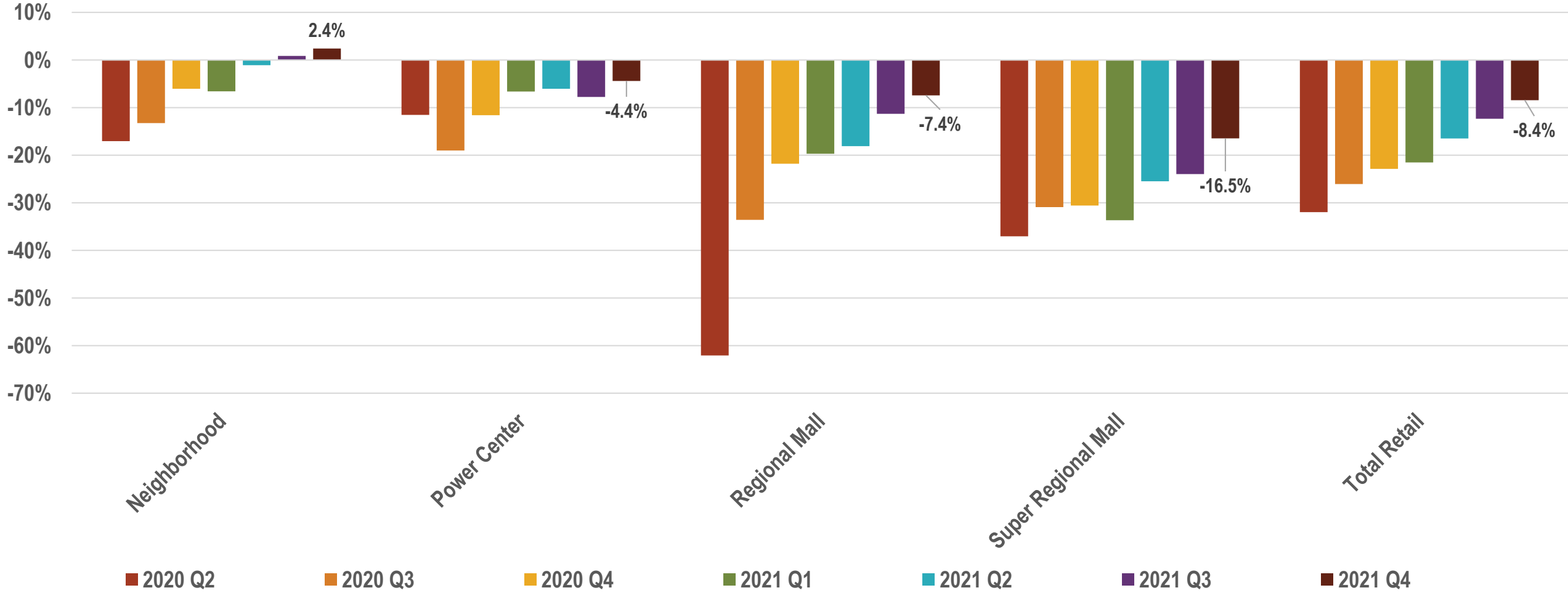


Cumulative NOI Change Since COVID Onset



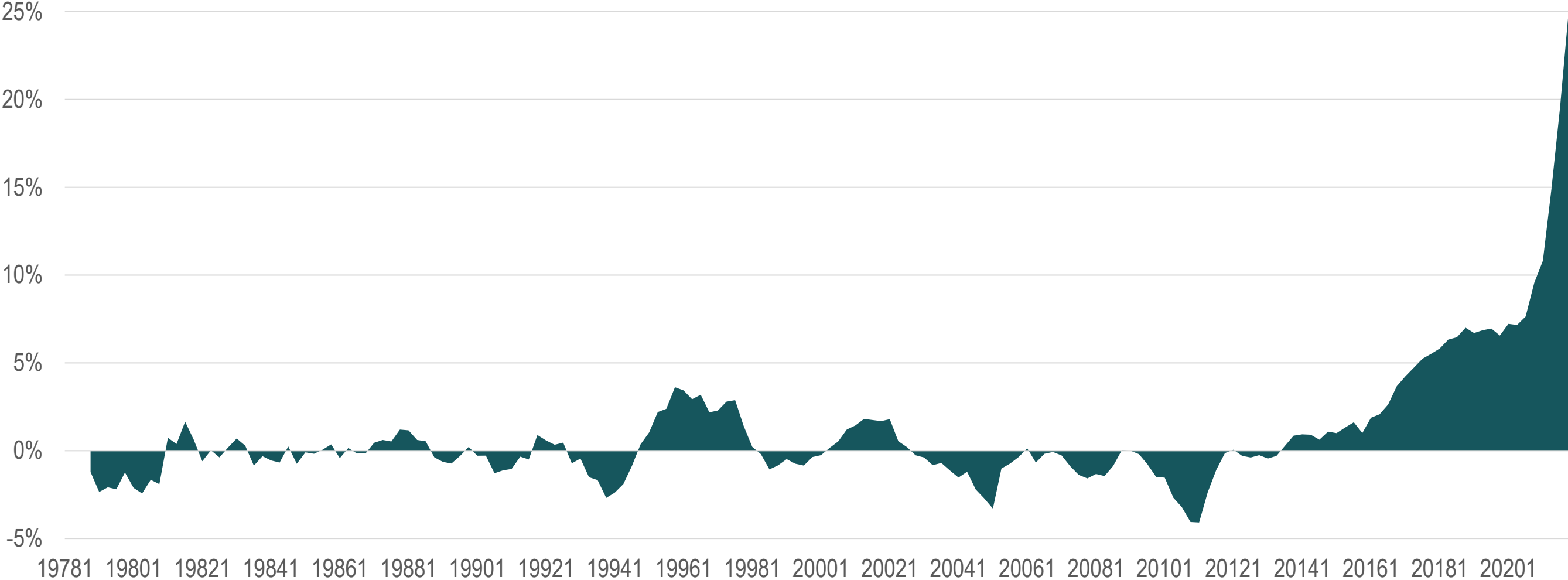
NEIGHBORHOOD CENTERS RECOVER; MALLS STRUGGLE

Cumulative NOI Change Since COVID Onset



INDUSTRIAL APPRECIATION OUTPERFORMING

Industrial Appreciation Less Total NPI Appreciation



INDUSTRIAL NPI RETURNS UNPRECEDENTED

NPI Trailing 1 Year Total Returns by Metro	Total	Apartment	Industrial	Office	Retail
Riverside	65.5%	34.0%	75.6%	-	4.4%
Orange County	28.2%	26.9%	58.2%	2.6%	4.6%
Phoenix	27.2%	44.1%	44.3%	3.5%	9.9%
Atlanta	24.0%	27.0%	36.8%	9.7%	10.6%
Cambridge, MA	22.4%	23.0%	44.0%	27.9%	-7.5%
San Diego	20.9%	23.7%	49.8%	21.9%	4.1%
Los Angeles	20.9%	13.4%	57.2%	5.7%	2.4%
Dallas	20.6%	24.1%	38.8%	5.8%	2.8%
Miami	19.9%	23.9%	34.2%	4.3%	2.9%
Austin	19.8%	24.7%	40.4%	11.9%	9.7%
Oakland	18.8%	13.3%	32.8%	13.2%	4.6%
Denver	18.7%	29.2%	24.3%	4.8%	5.0%
Seattle	15.1%	17.9%	28.2%	9.6%	0.6%
Chicago	10.6%	8.9%	26.7%	3.3%	1.8%
New York	10.4%	8.4%	47.4%	2.2%	-1.5%
Houston	9.3%	15.0%	24.2%	2.0%	5.2%
San Jose	9.1%	10.5%	20.5%	8.9%	1.1%
Boston	8.8%	15.2%	36.5%	4.5%	3.8%
Washington DC	6.7%	14.8%	35.8%	2.3%	3.3%
San Francisco	5.8%	6.2%	20.2%	5.2%	-1.1%

THANK YOU

Questions?