



# MID-YEAR MARKET UPDATE AND ESG SNAPSHOT

## RCLCO Monthly Round-Up

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# TODAY'S PANELISTS



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# AGENDA

- **RCLCO 2022 Mid-Year Sentiment Survey Results**
- **Economic Outlook and RCLCO POV**
- **ESG Snapshot**
- **Q&A**

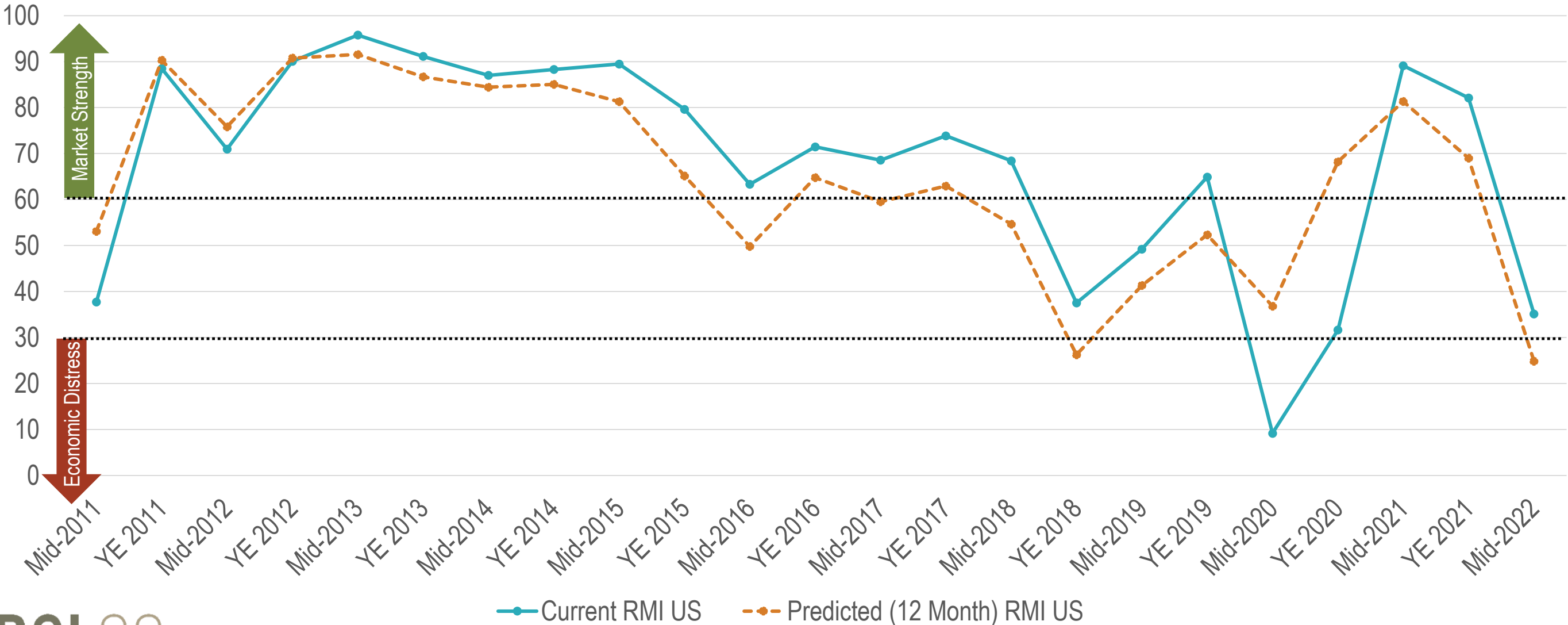
# SENTIMENT SURVEY RESULTS

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# SENTIMENT DIPS AS UNCERTAINTY ABOUNDS

CURRENT RMI INDEX AT 35, DOWN FROM 82

### RCLCO National Real Estate Market Index



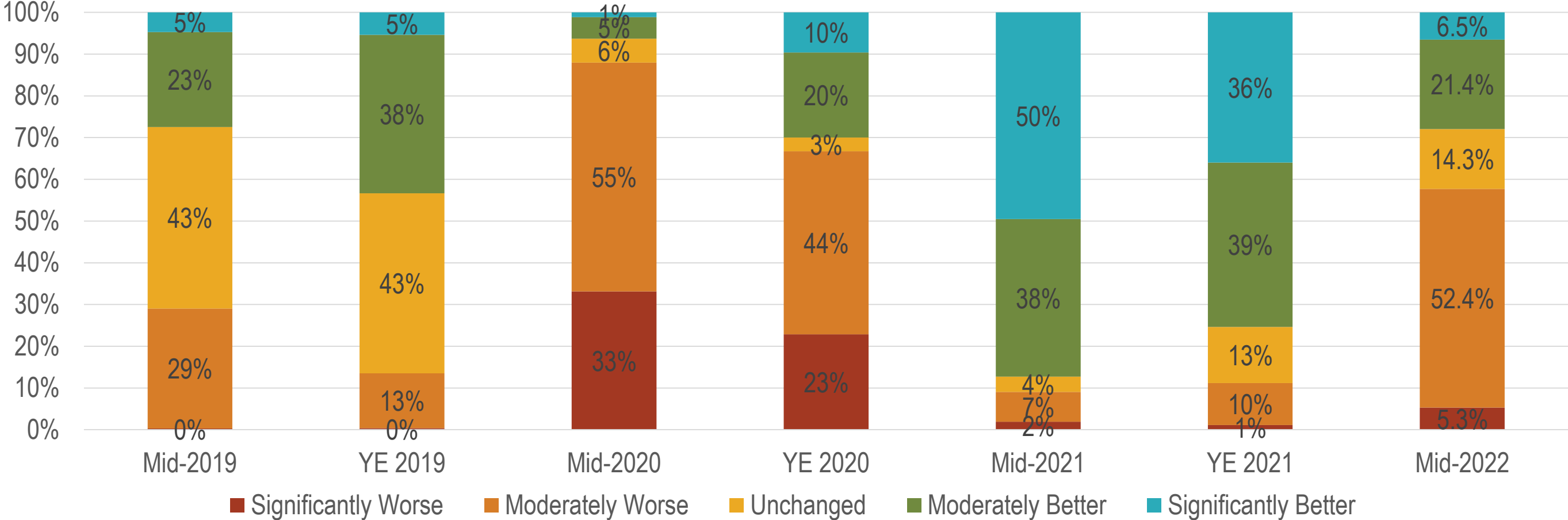
Source: RCLCO



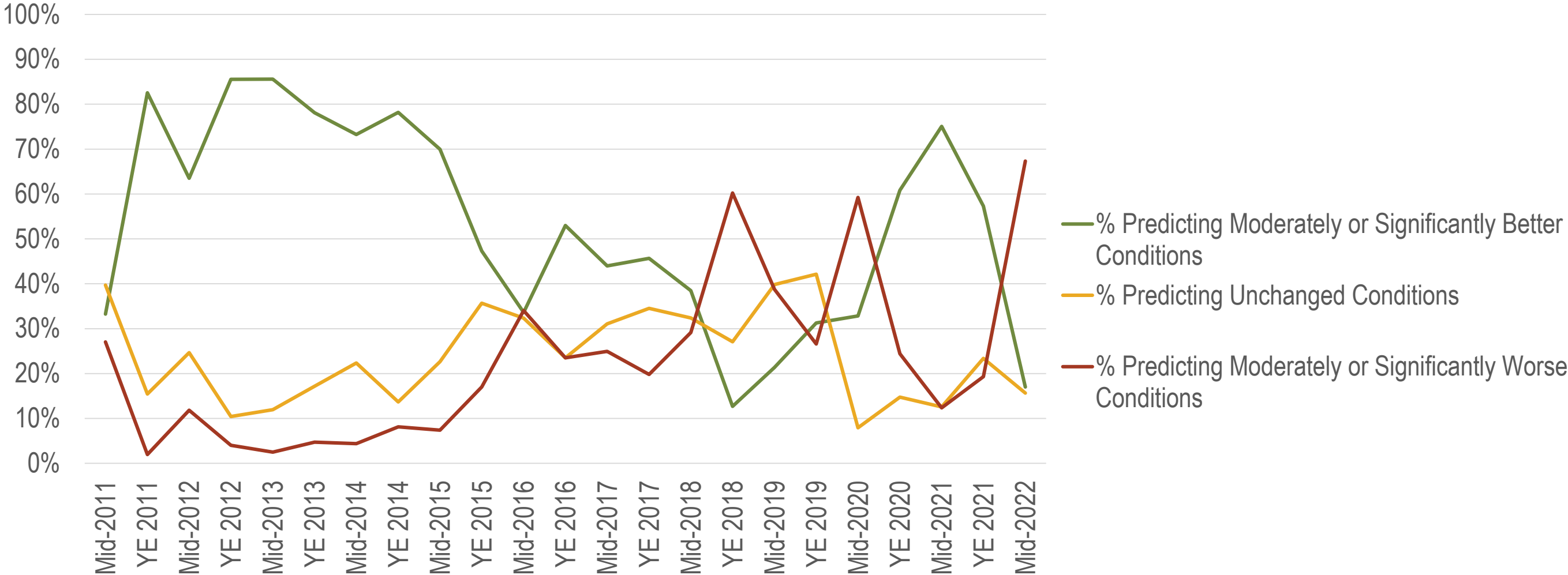
# 58% BELIEVE CONDITIONS ARE DECLINING

75% felt conditions were IMPROVING at Year End 2021

**How Would You Rate National Real Estate Market Conditions Today Compared with 1 Year Ago**  
Current National Sentiment Survey Over Time

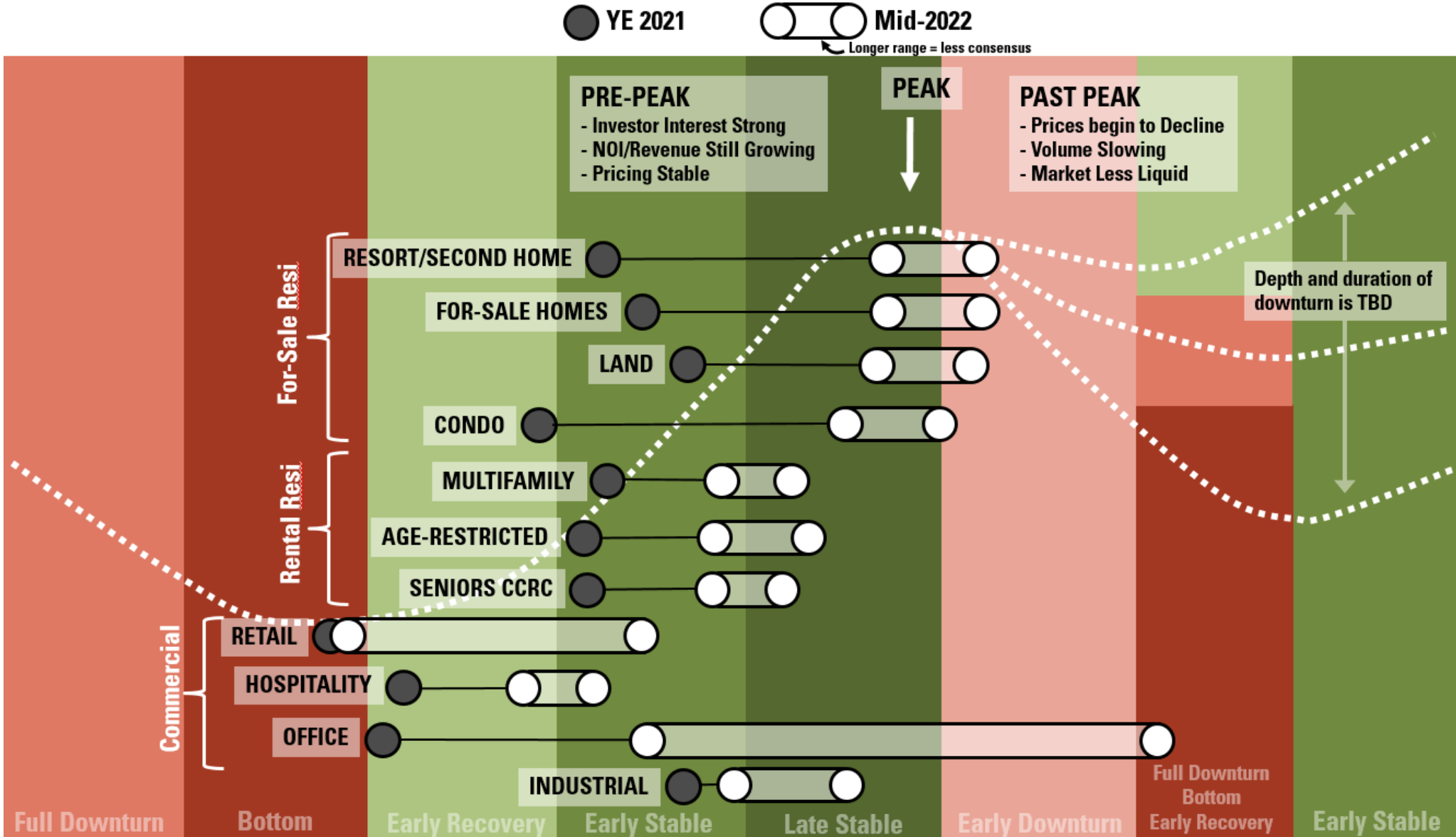


# 12-MONTH FORWARD U.S. REAL ESTATE MARKET PREDICTIONS OVER TIME



# CYCLE STAGE MOVEMENT OVER SIX MONTHS

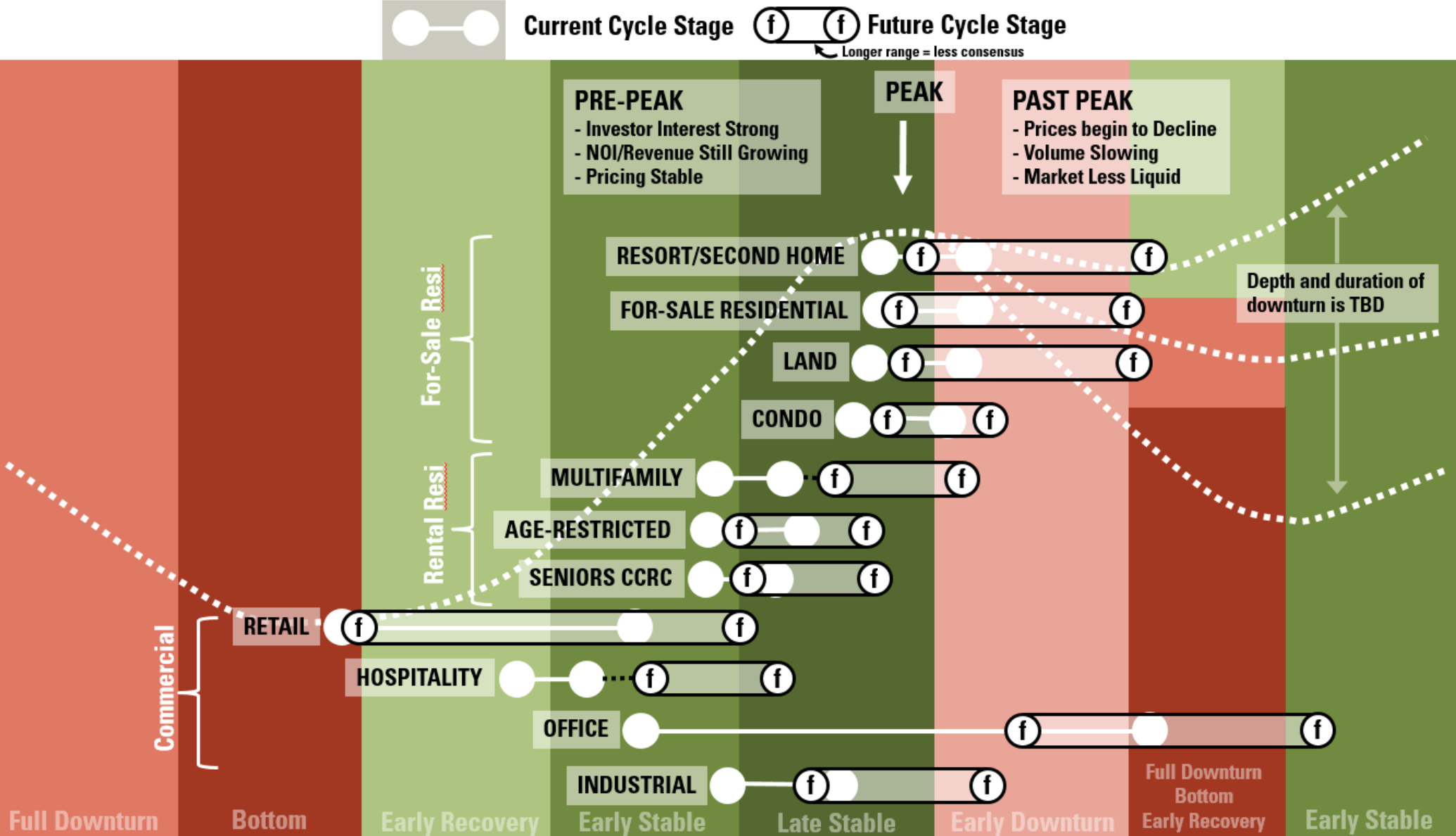
## RCLCO Real Estate Cycle Chart





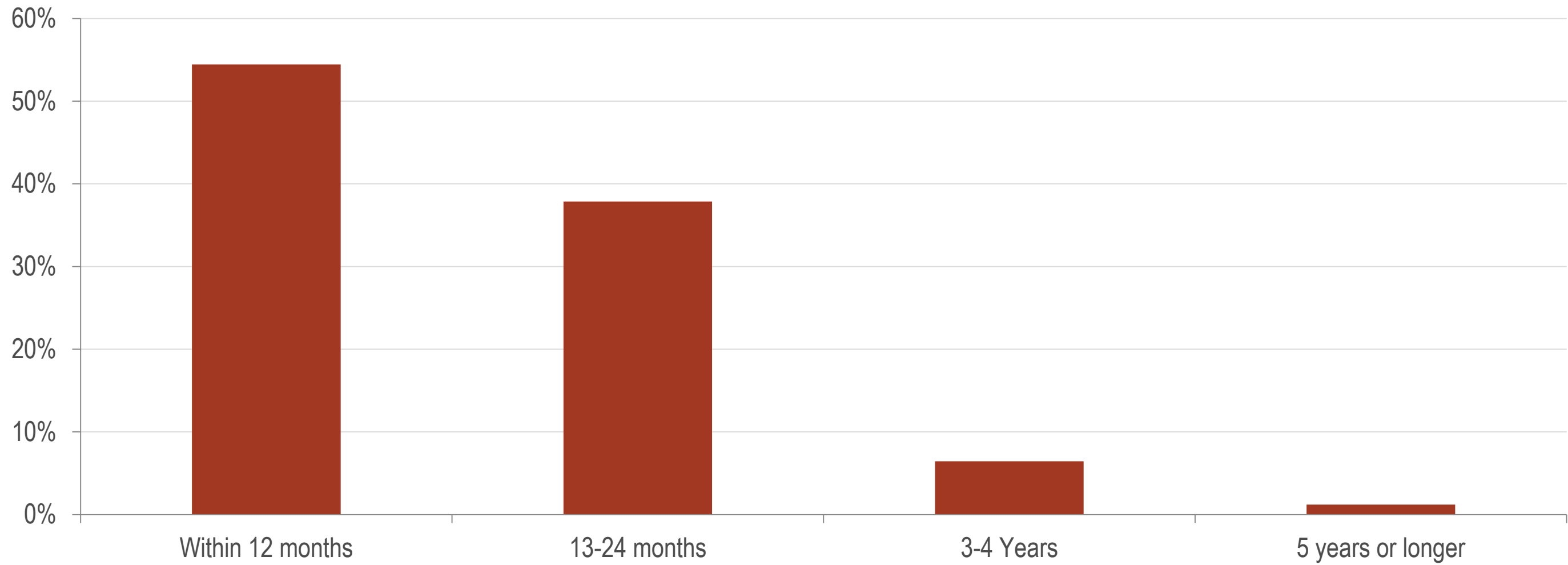
# PREDICTED CYCLE STAGE MOVEMENTS

## RCLCO Real Estate Cycle Chart



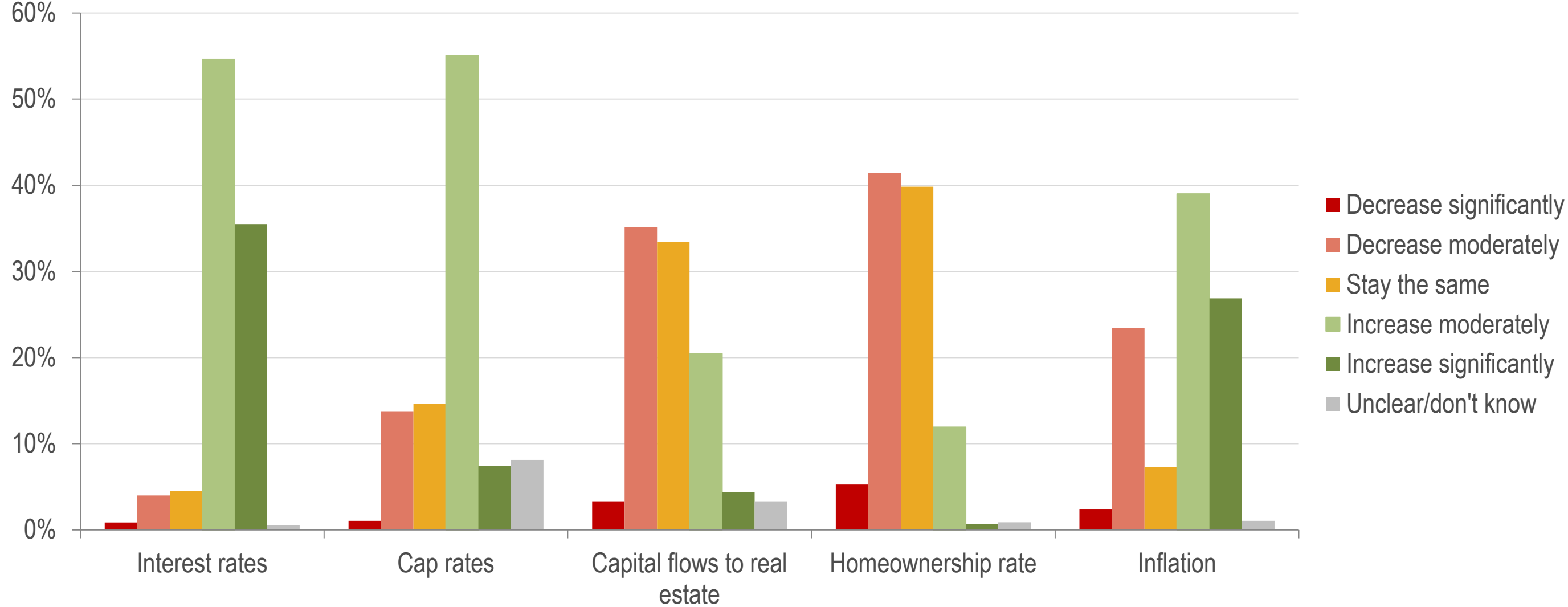
# EXPECTED RECESSION TIMING

Respondents asked to predict timing of next Recession, defined by 2 consecutive quarters of negative GDP Growth



# ECONOMIC INDICATORS IN 12 MONTHS

## Forward looking projections



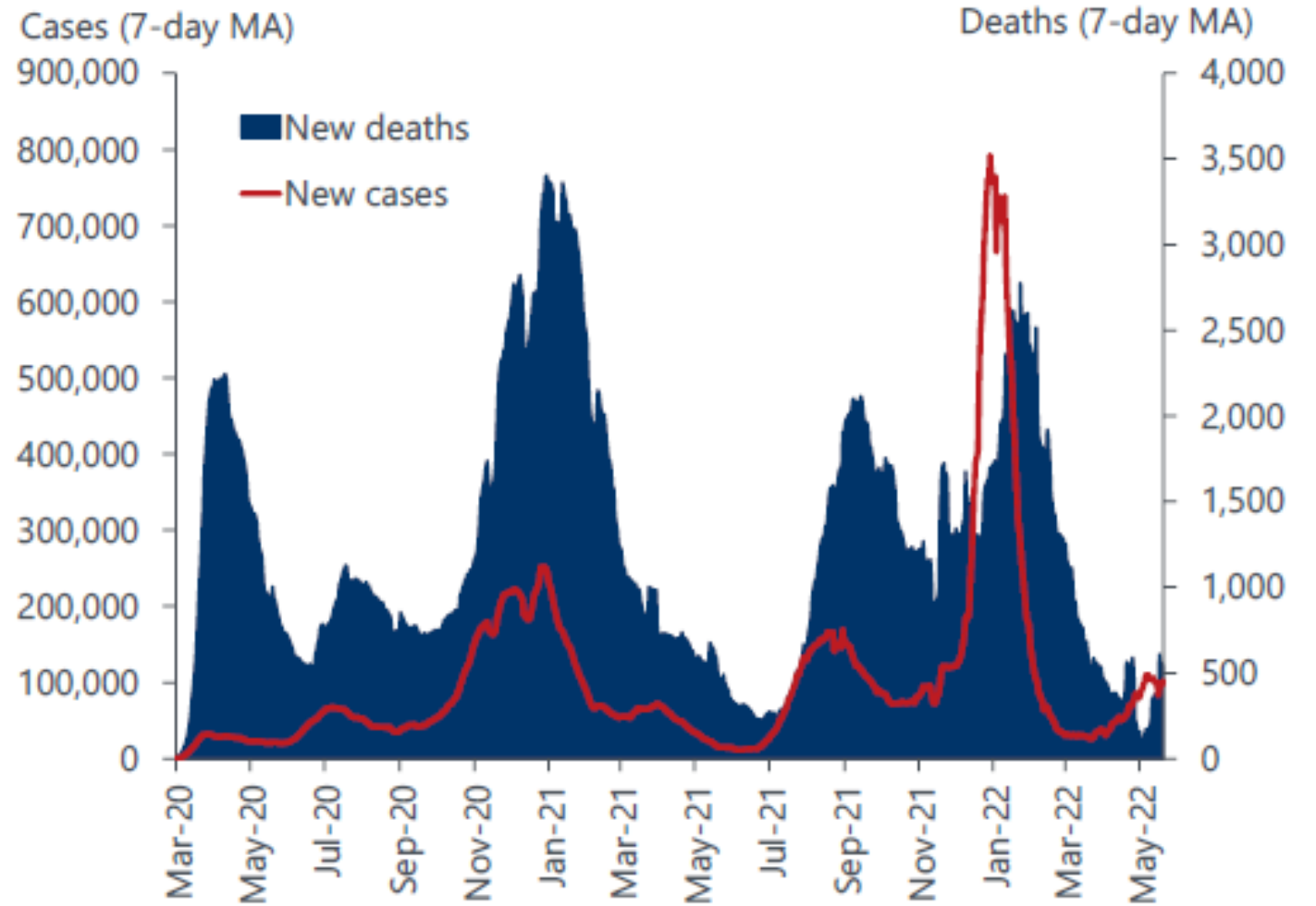
# ECONOMIC OUTLOOK

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# RCLCO POV

## THINGS TO FEEL GOOD ABOUT...

- ▶ It's back to the economy, stupid...
- ▶ COVID cases have picked up through mid-June
  - » However, the overall caseload is low
  - » And deaths and hospitalizations remain tame



Source: Oxford Economics/Haver Analytics

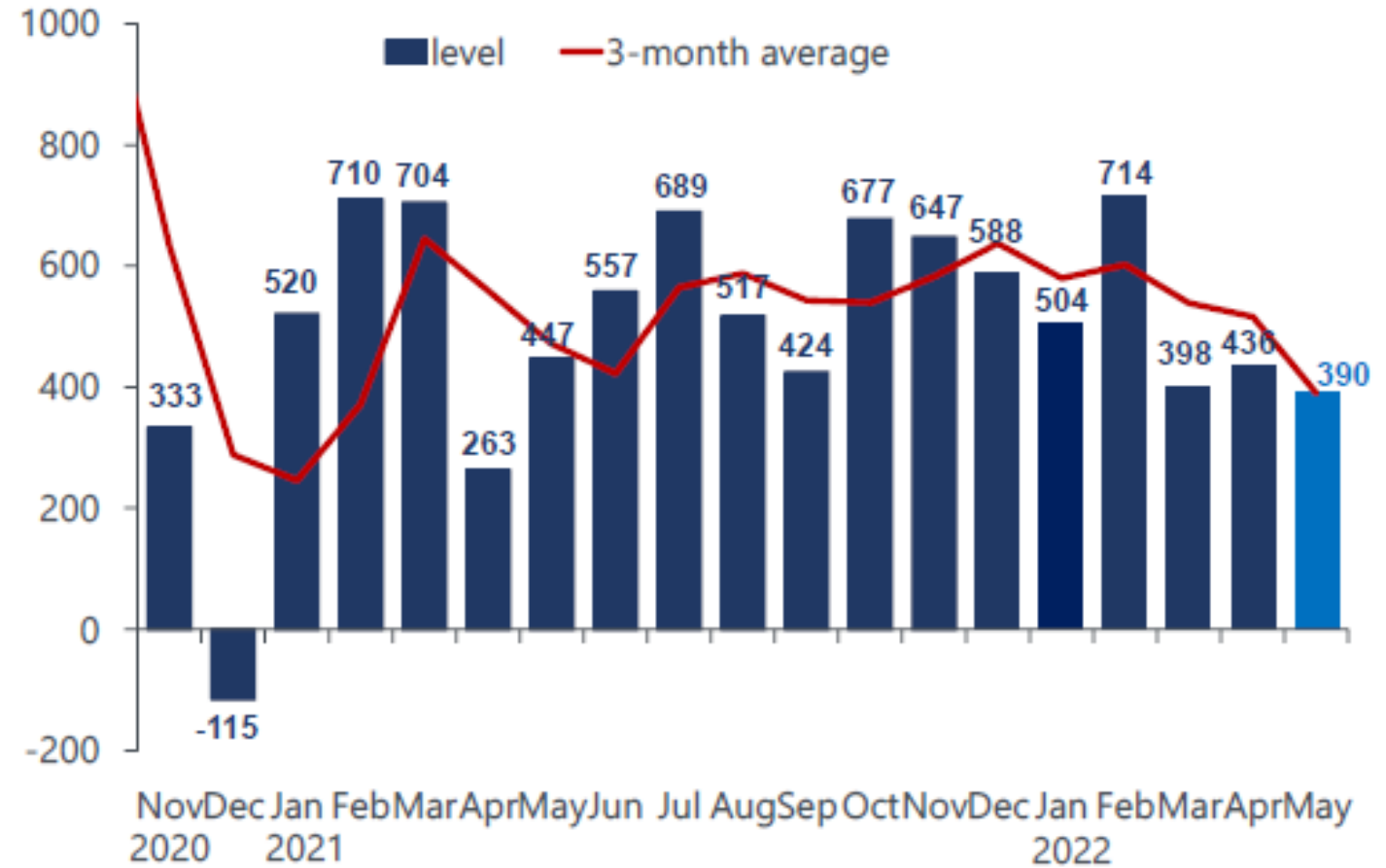
# RCLCO POV

## THINGS TO FEEL GOOD ABOUT...

- ▶ Employers added **390,000** jobs in May
  - » Now **2.4 M** jobs added so far in 2022
- ▶ April payrolls were revised upwards **4,000** jobs

US: Nonfarm payroll employment

Thousand



Source: Oxford Economics/Haver Analytics

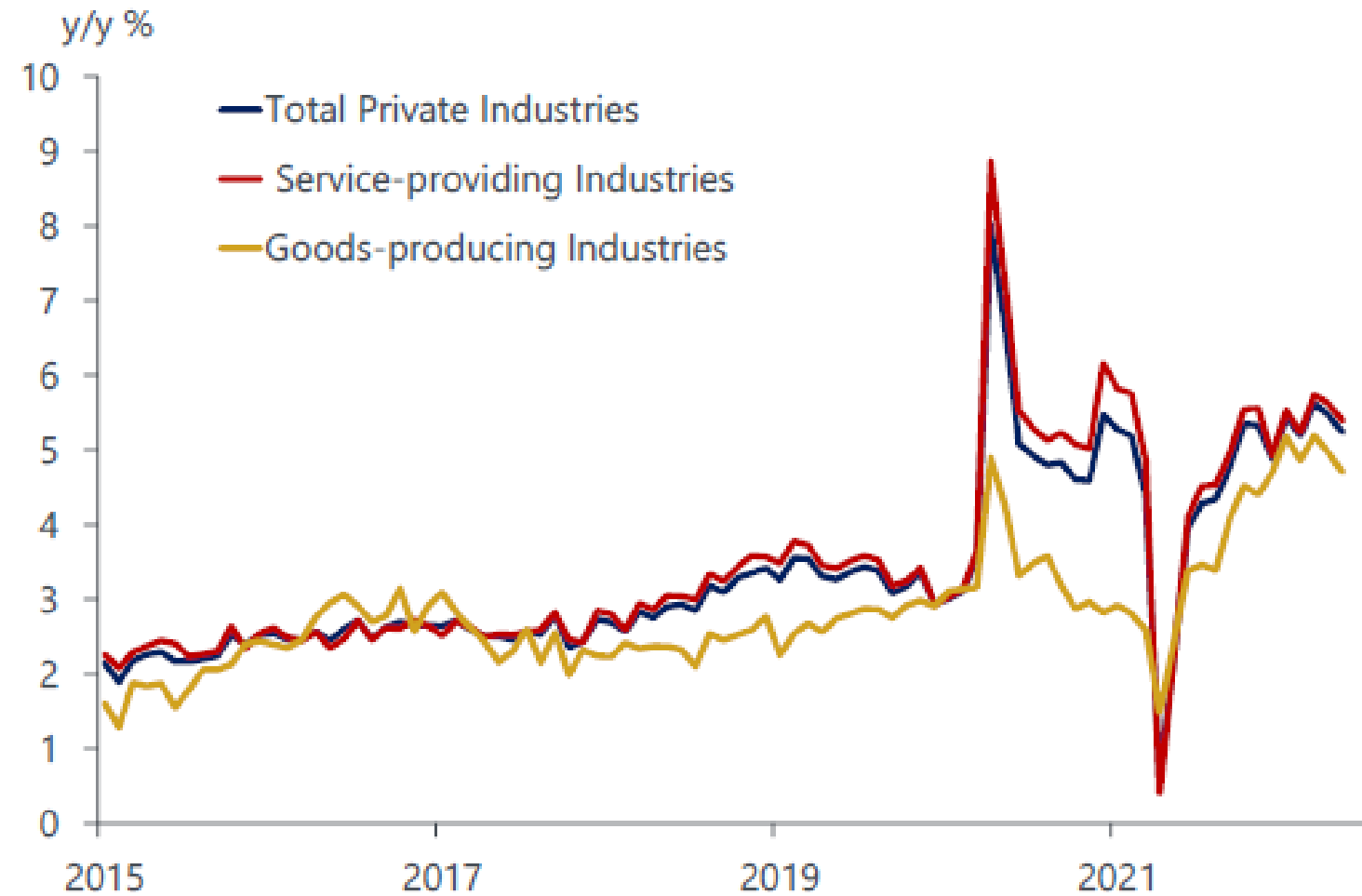


# RCLCO POV

## THINGS TO FEEL GOOD ABOUT...

- ▶ Wage growth moderated further in May, but remains hot...
  - » MoM hourly earnings rose a moderate **0.3%**
  - » YoY rate slowed to **5.2%**

US: Total private average hourly earnings



Source: Oxford Economics/Haver Analytics

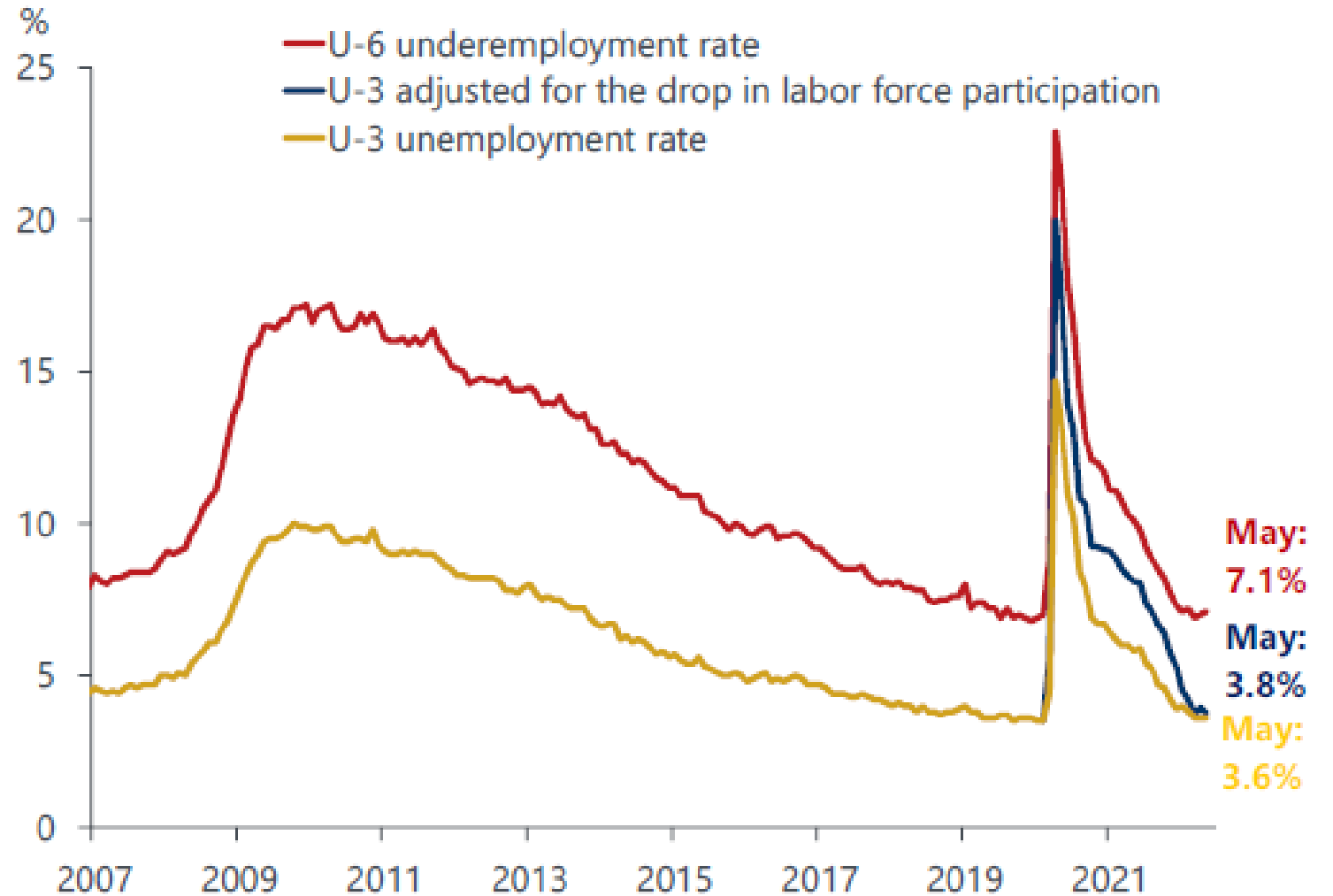
Note: Data from Jan 1985 to Feb 2007 inferred from production and nonsupervisory

# RCLCO POV

## THINGS TO FEEL GOOD ABOUT...

- ▶ Unemployment rate held steady at **3.6%** in May
- ▶ Supply of available workers rebounded – labor force participation rose to **62.3%**

### US: Unemployment rates



Source: Oxford Economics/Haver Analytics

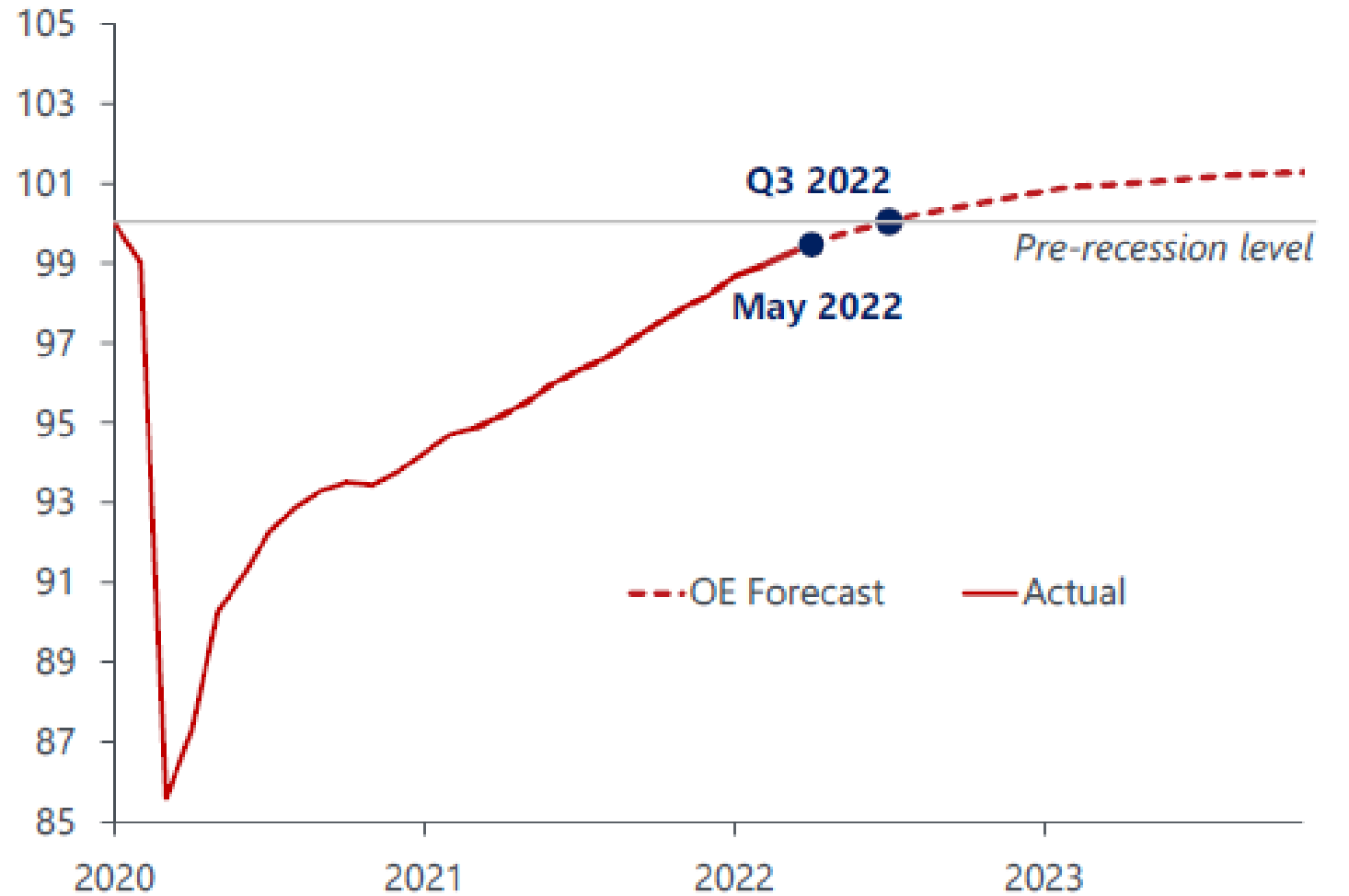
# RCLCO POV

## THINGS TO FEEL GOOD ABOUT...

- ▶ U.S. economy forecasted to add **4.0** million jobs in 2022
  - » Full labor market recovery by **Q3**

### US: Employment recovery

Peak pre-recession employment = 100



Source: BLS/Oxford Economics/Haver Analytics

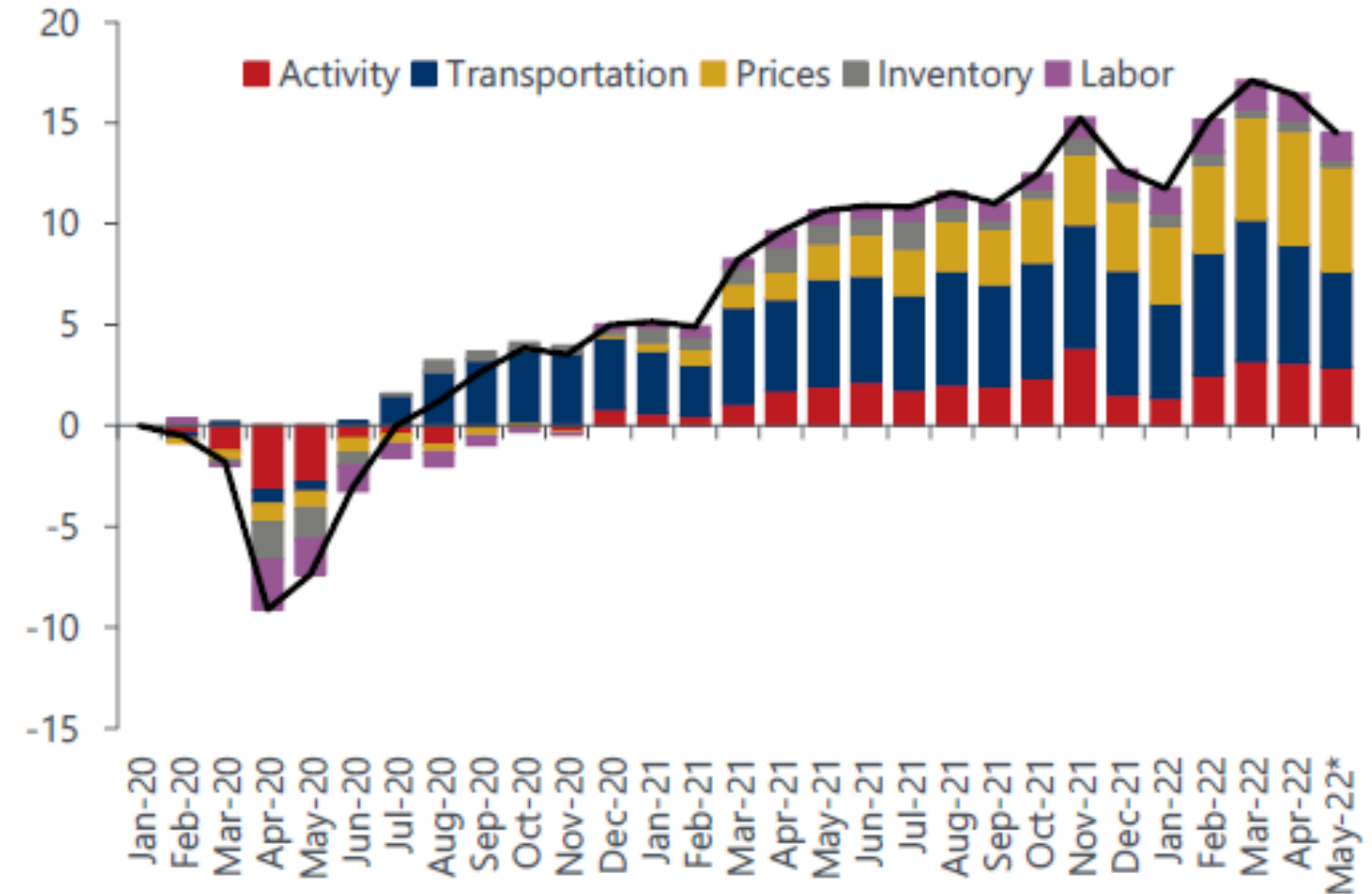
# RCLCO POV

## THINGS TO FEEL GOOD ABOUT...

- ▶ Supply chain stress eased modestly in May
- ▶ Shipping costs have fallen sharply in June
  - » China to US west coast **-29%**
  - » China to US east coast **-26%**
  - » Global container price index **-15%**

### US: Supply chain stress tracker

Index; > 0 = rising stress



Note: \* estimate based on preliminary data and OE forecasts

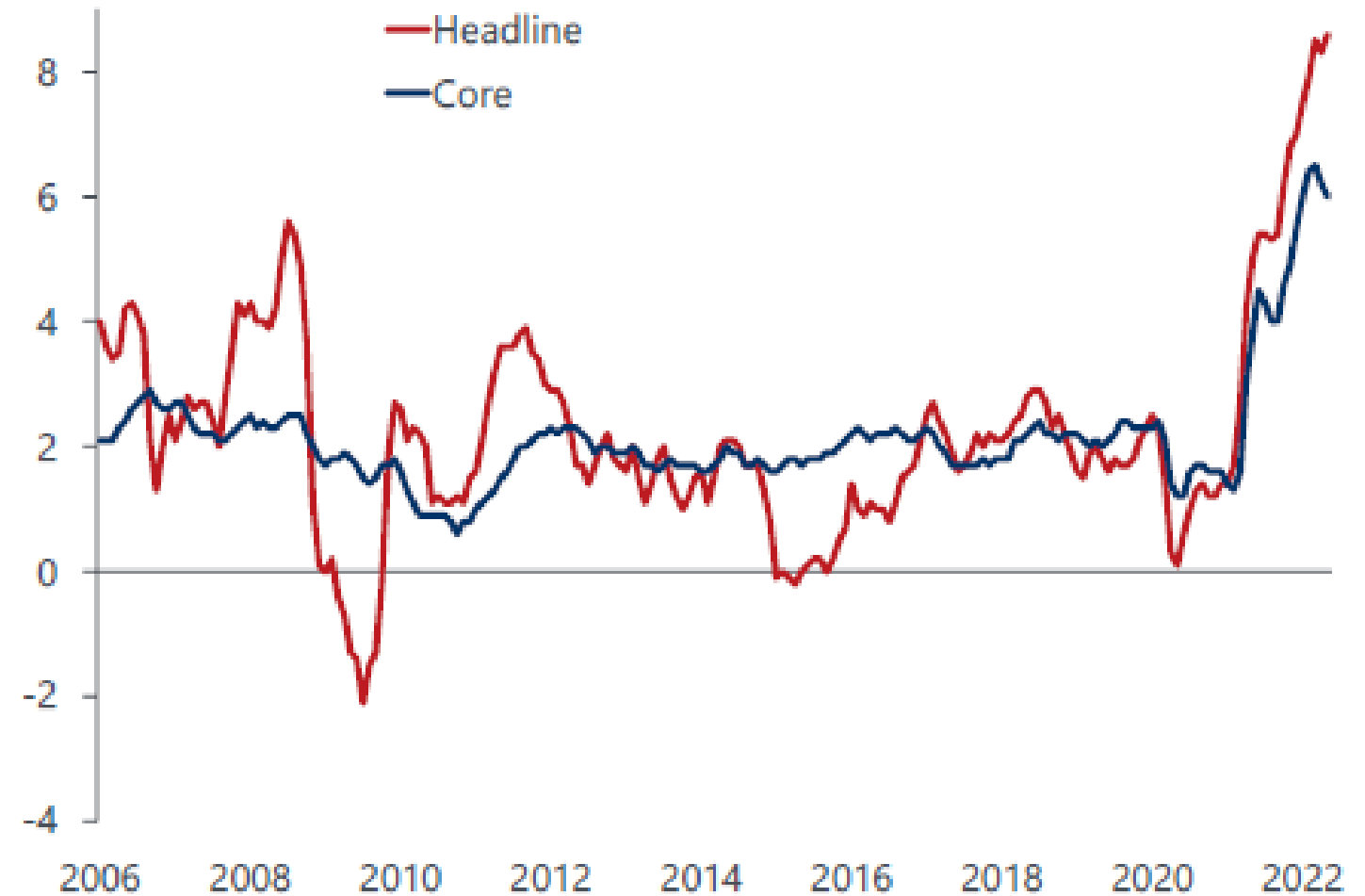
# RCLCO POV

## THINGS TO FEEL NERVOUS ABOUT...

- ▶ Consumer prices ramped up to a **40-year high** in May
- ▶ Headline energy prices jumped MoM **3.9%**
  - » YoY energy prices accelerated to **34.6%** pace – highest since 2005
- ▶ Food continued to increase **1.2%** in May
  - » YoY food is up **10.1%**, the fastest since March 1981
- ▶ Strong inflation pressures are expected to moderate in 2023

### US: Consumer prices

%, year



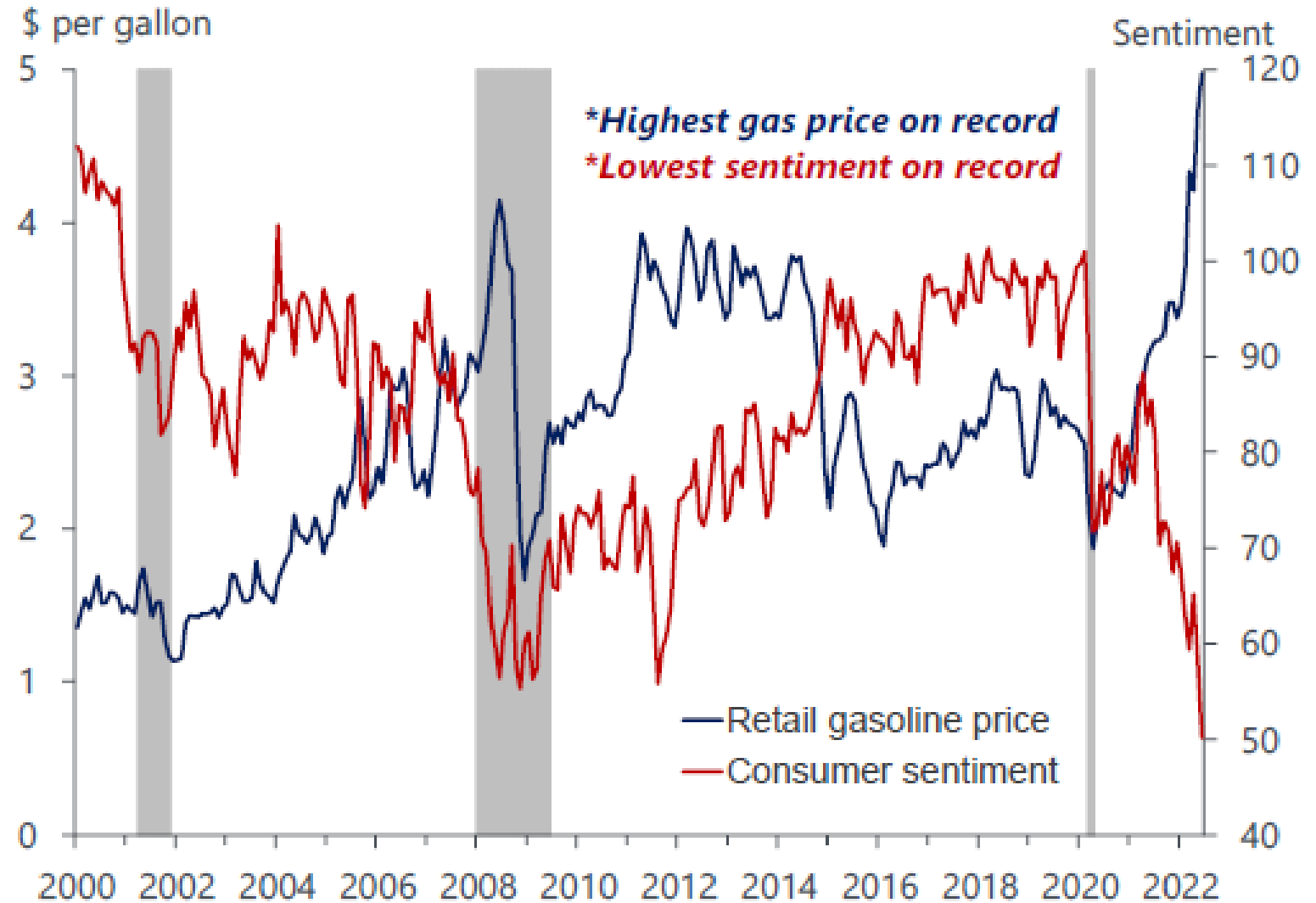
Source: Oxford Economics/Haver Analytics

# RCLCO POV

## THINGS TO FEEL NERVOUS ABOUT...

- ▶ Price at the pump are key driver consumer sentiment
  - » **Highest** gas prices on record
  - » **Lowest** sentiment on record

US: Surging gas prices are exacerbating depressed sentiment



Source: Oxford Economics/Haver Analytics



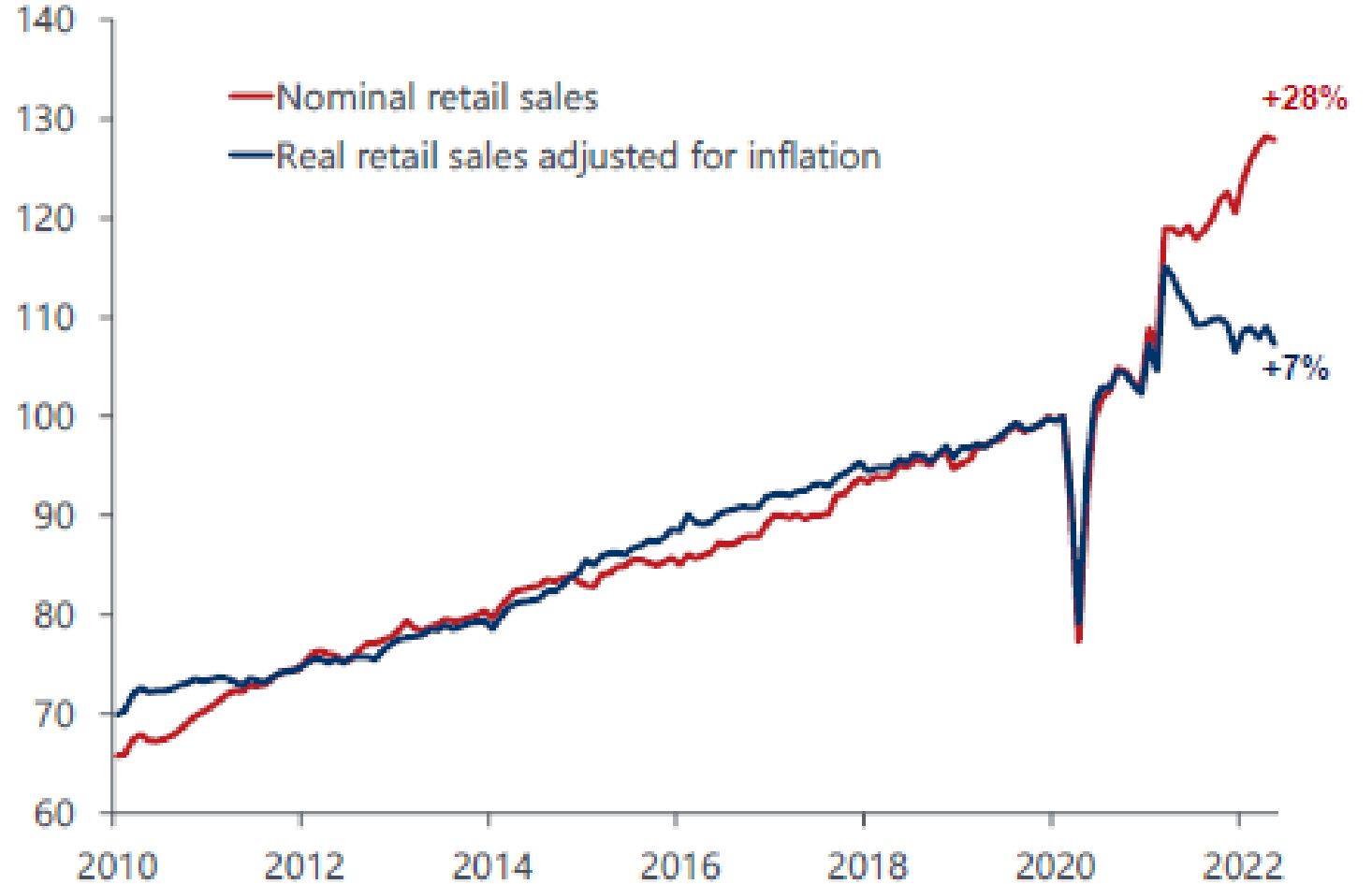
# RCLCO POV

## THINGS TO FEEL NERVOUS ABOUT...

- ▶ Softer May retail sales reflected strong inflation pressures
  - » Nominal retail sales **+28%**
  - » Inflation adjusted **+7%**

### US: Elevated inflation is boosting retail sales

Index, (Feb 2020=100)

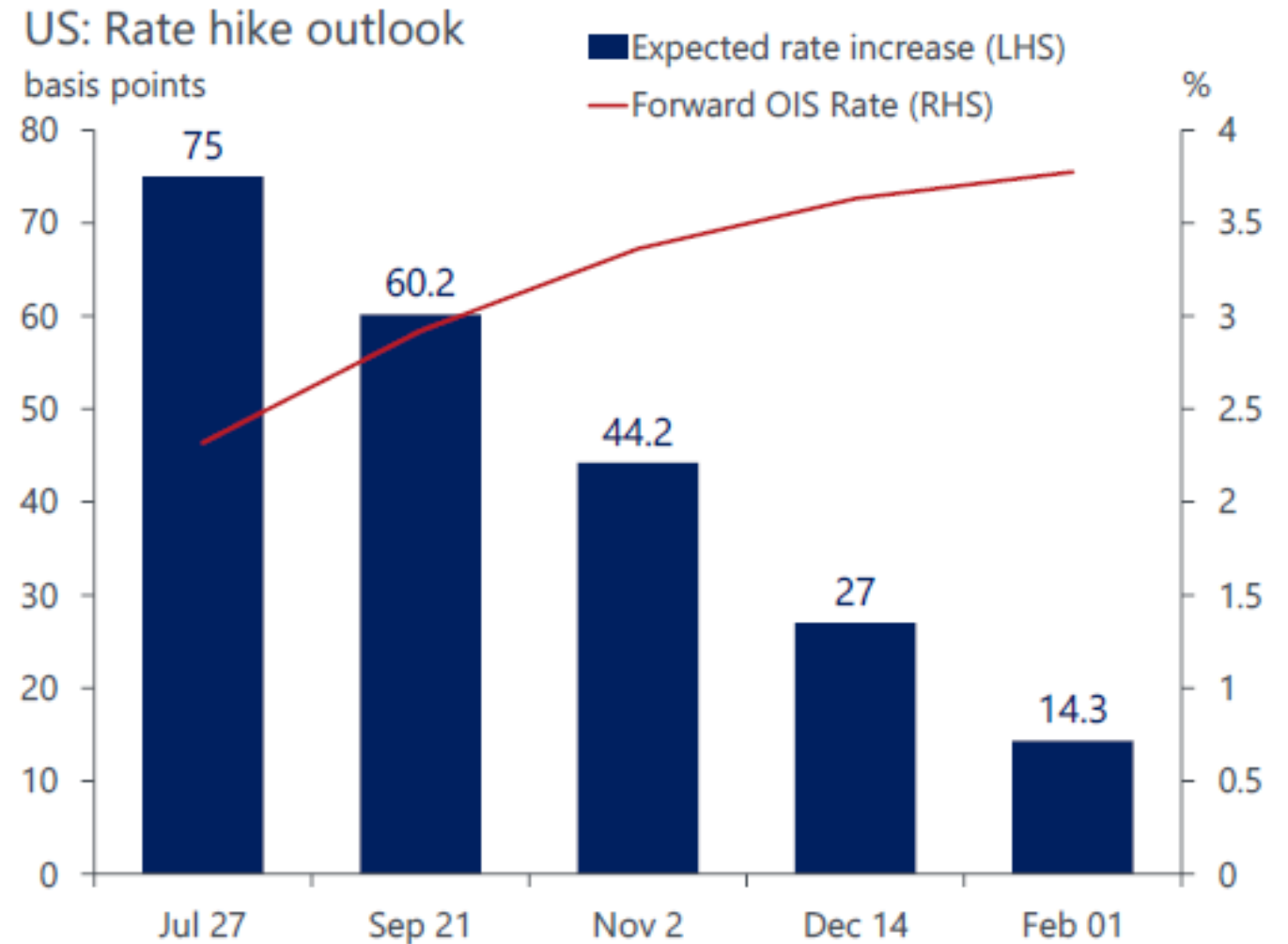


Source: Oxford Economics/Haver Analytics

# RCLCO POV

## THINGS TO FEEL NERVOUS ABOUT...

- ▶ The Fed has begun raising rates to combat inflation
- ▶ Markets are expecting another **75bps** in July
  - » Followed by another **75bps** in September
  - » Some expect the Fed to reverse gears and cut rates in H2 2023



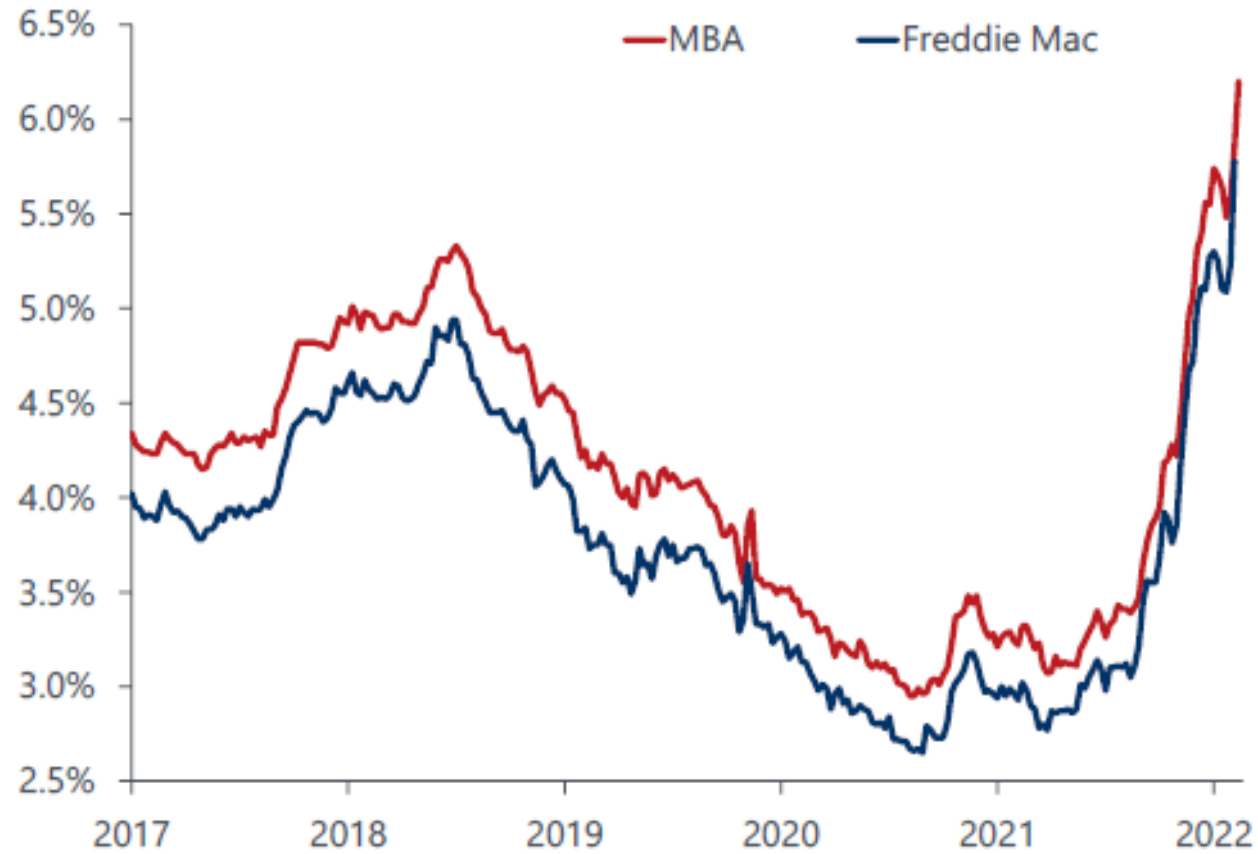
Source: Oxford Economics/Bloomberg

# RCLCO POV

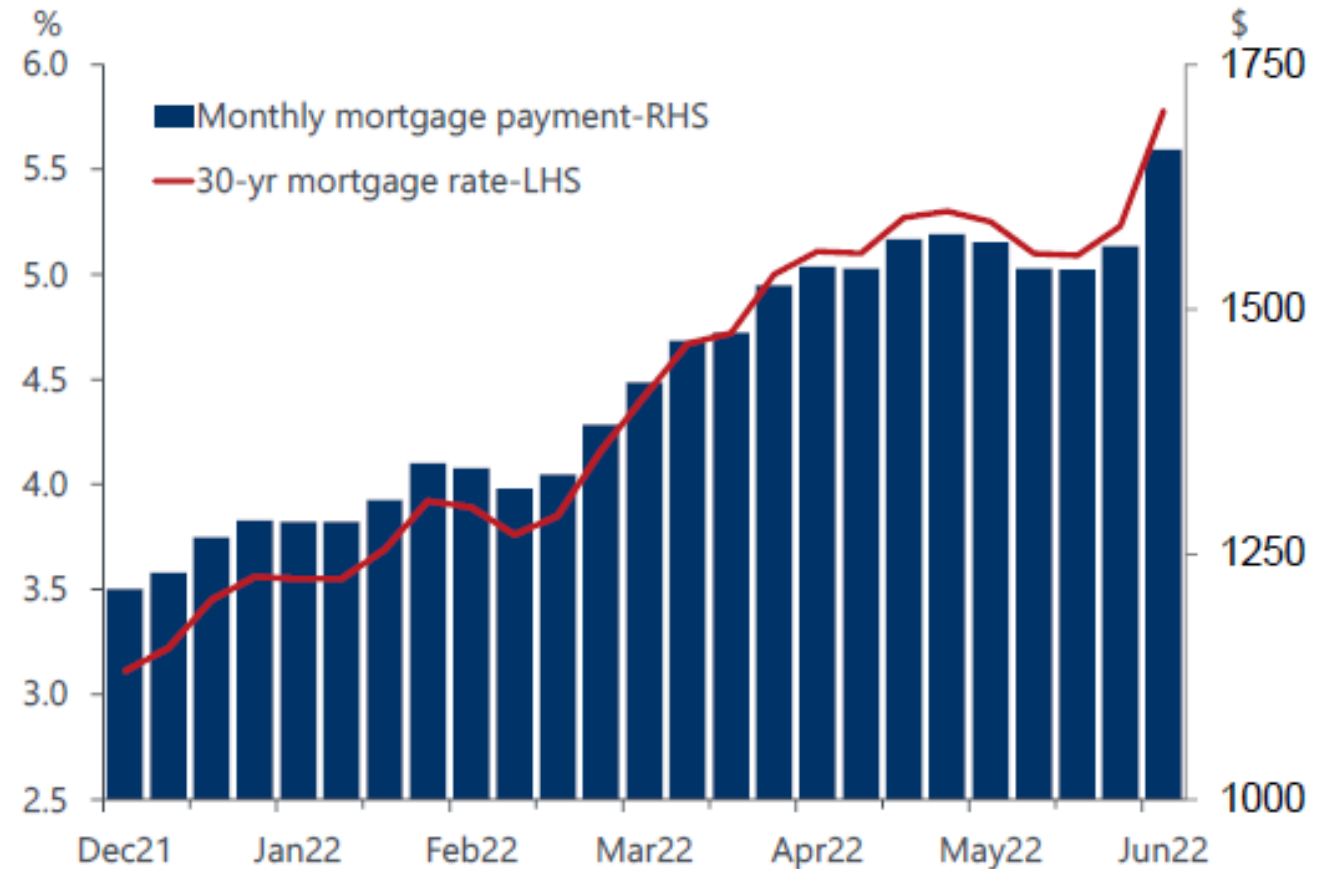
## THINGS TO FEEL NERVOUS ABOUT...

- Rising interest rates have weighed sharply on affordability.

US: 30-year mortgage rates



US: The impact of higher rates on mortgage payments



Source: Oxford Economics/Haver Analytics/Freddie Mac

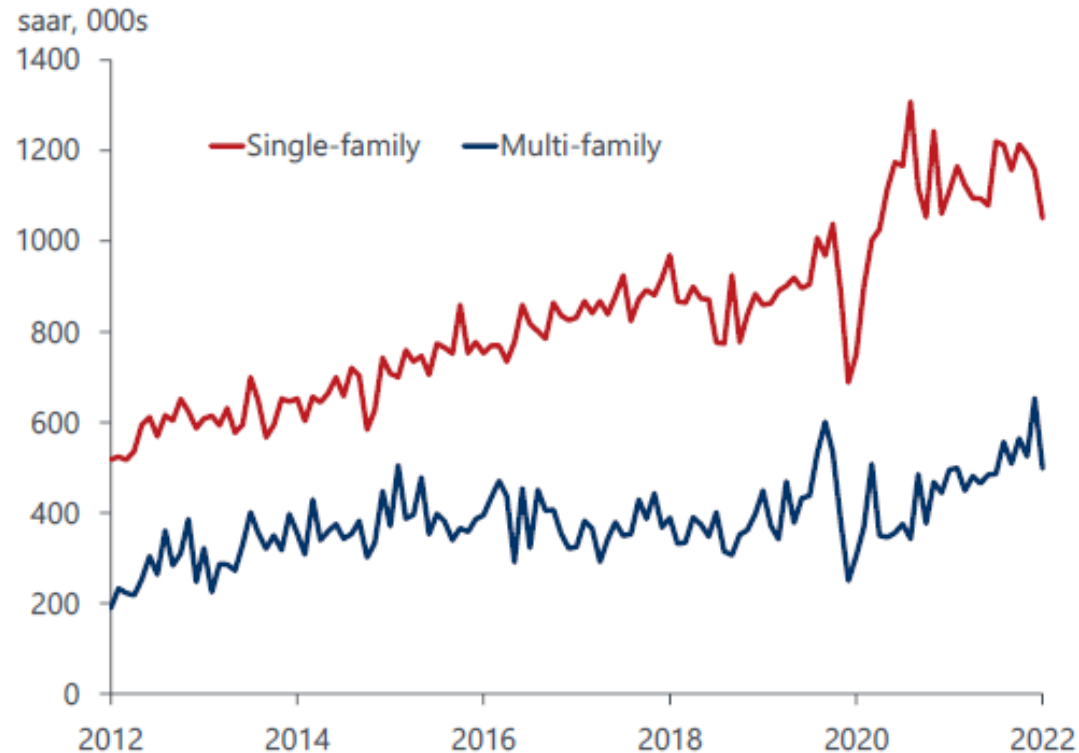
# RCLCO POV

## THINGS TO FEEL NERVOUS ABOUT...

- ▶ Housing starts tumbles in May in the face of sharply higher rates and rising construction costs
  - » MF historically more volatile MoM...

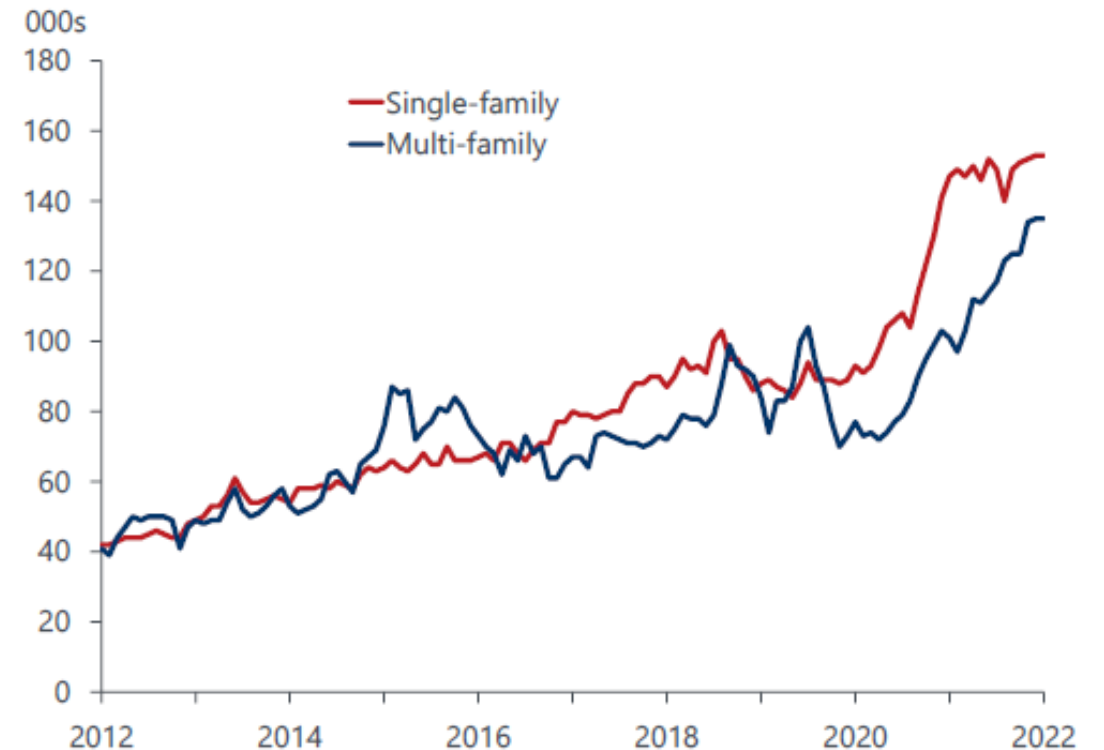
- ▶ And yet, record backlogs will likely keep a floor under supply and keep prices and rents escalating...

US: Housing starts



Source: Oxford Economics/Haver Analytics

US: Housing units authorized but not yet started



Source: Oxford Economics/Haver Analytics

# RCLCO POV

## POSSIBLE WILD CARD EVENTS...



### ► Fiscal Risk

- » Aggressive and front-loaded Fed rate hikes will weigh heavily on economic activity, and the risk of a hard landing (a.k.a., recession) is increasing



### ► Inflation Risk

- » Fed action is aimed squarely at fighting inflation, but high levels of inflation are expected to persist into 2023 which could erode consumer confidence even further



### ► Geopolitical Risk

- » War in Ukraine has slipped “below the fold,” but rocket attacks in Kiev this week should remind everyone that this conflict is far from over



### ► Pandemic Risk

- » It's no longer about “the curve” - cases, deaths, and hospitalizations in the U.S. are all down with few new global hot spots – however, possibility of a new variant that is able to elude existing vaccines and therapies is a risk

# RCLCO POV – RECESSION LIKELY IN NEAR TERM

Base Case as of June 2022, ~60% Probability

- ▶ **US GDP growth will slow (0-2%) in 2022 with shallow recession likely.**
- ▶ **Job growth will moderate to 1-1.5 million (annual) in 2023 and 2024 but not turn negative.**
- ▶ **UST are expected to remain in the 3.0-3.5% range for the next several years.**
- ▶ **As the economy slows, US real estate fundamentals will likely soften, with slightly higher vacancy rates and slower rent growth over next 3 years.**
- ▶ **Real estate capital markets are likely to stay resilient.**
- ▶ **Higher borrowing rates have led to bid/ask spreads and modest price declines (5-10%), but large price declines are unlikely.**



# RCLCO POV – IMPLICATIONS FOR REAL ESTATE

- ▶ Despite potential recession over next 24 months, **some real estate sectors should outperform** next 5-10 years:
  - » **Rental Housing** – Job growth and high housing prices will keep MF and BTR rental demand high, although supply is ramping up.
  - » **Industrial** – Demand should stay very strong as e-commerce continues to expand and build out its supply chain.
  - » **Niche Sectors** – Health care (medical office, life sciences, senior housing), data centers, and self storage have strong long-term demand drivers, but often require specialized investment and management expertise.
- ▶ Caution is recommended for **office** (flight to quality) **and retail** (flight to necessity), as structural shifts are ongoing, creating greater uncertainty.
- ▶ **Strong fundamentals and long-term growth factors support selective development and value-add** of rental residential, industrial, and some niche property types (medical real estate, self storage, data centers).
- ▶ Upcoming **slowdown will likely create investment opportunities**, widespread distress is unlikely.

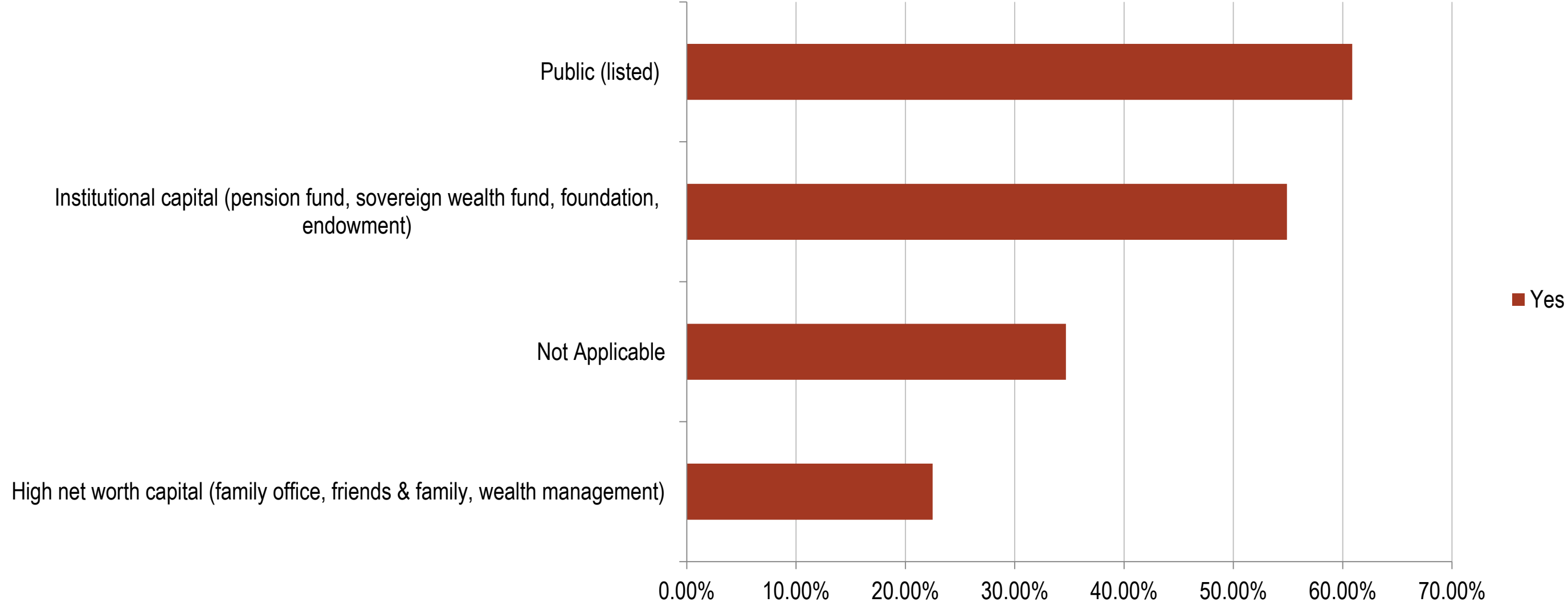
# ESG SNAPSHOT

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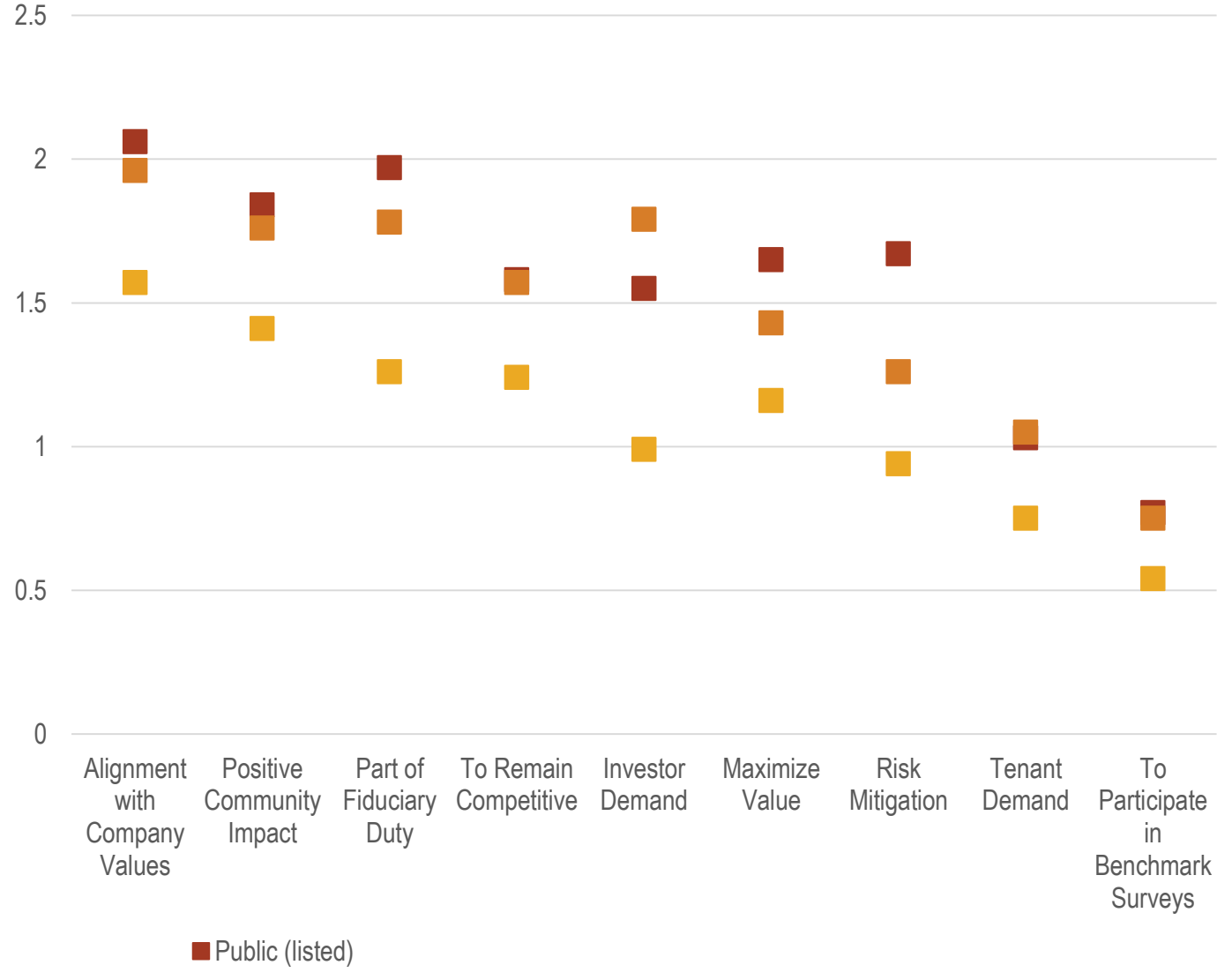
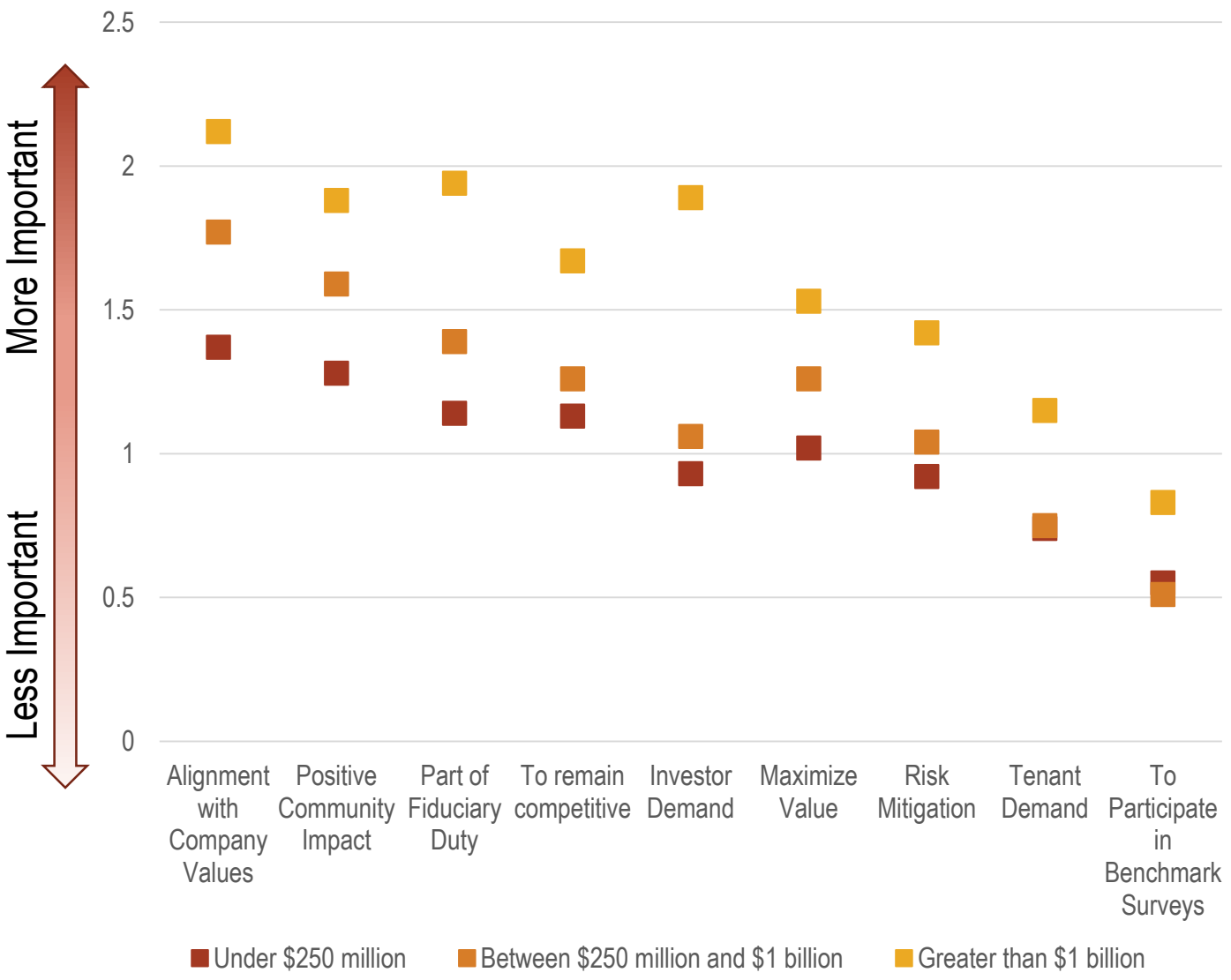
# ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

- ▶ Real estate companies integrate ESG considerations into the investment process
  - » Early adoption phase
  - » 38% have policy in place
    - › >50% of firms representing institutional / public capital vs 20% HNW
- ▶ The Why
  - » Alignment with corporate values and community impact
  - » Part of fiduciary duty
- ▶ The Why Not
  - » Internal resource availability
  - » Relevance for investment strategy
- ▶ Tools, benchmarks, and frameworks
  - » Wide adoption of ENERGY STAR and LEED rating system – over 60% of respondents participate

# DOES YOUR ORGANIZATION HAVE AN ESG POLICY IN PLACE?



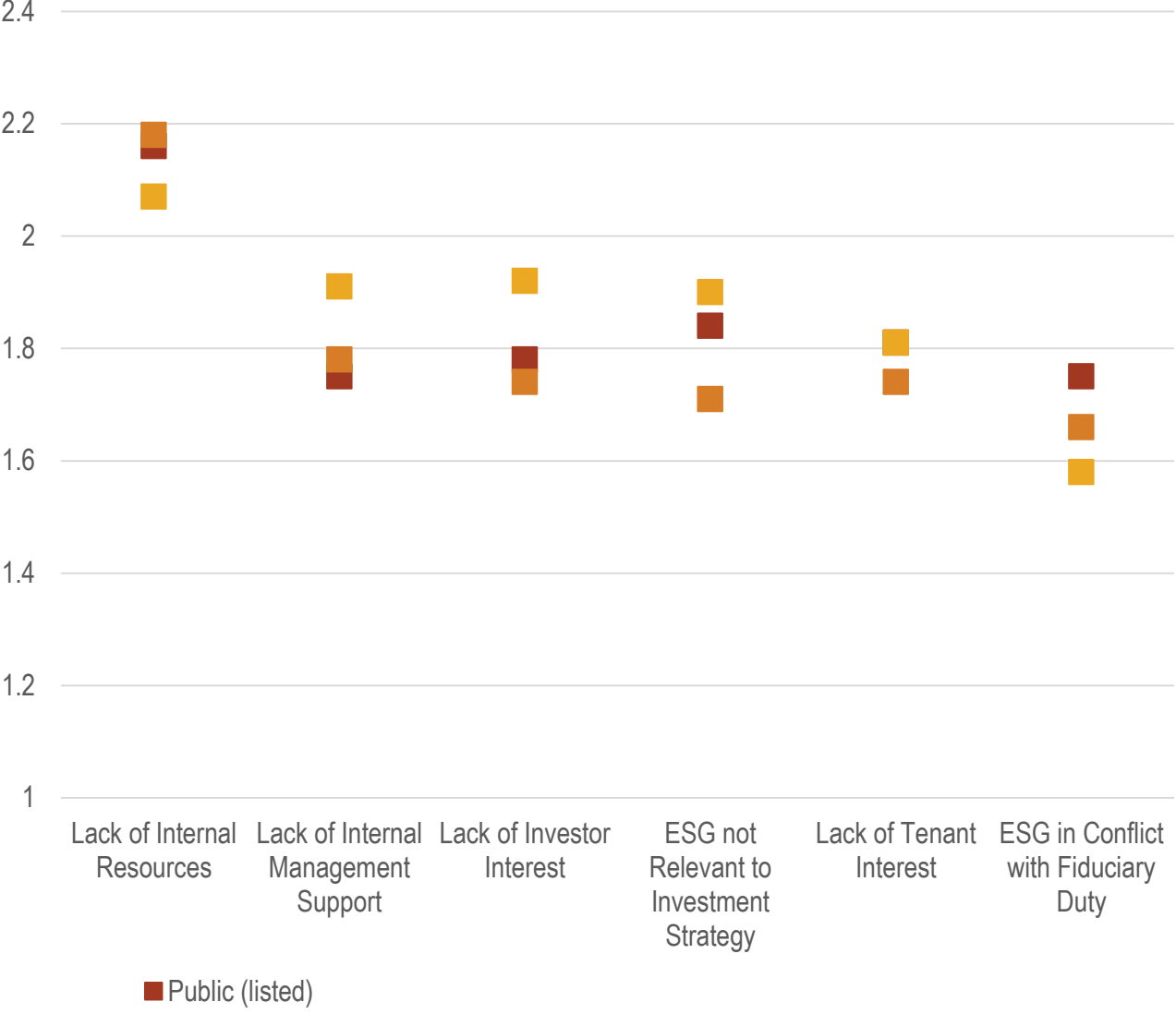
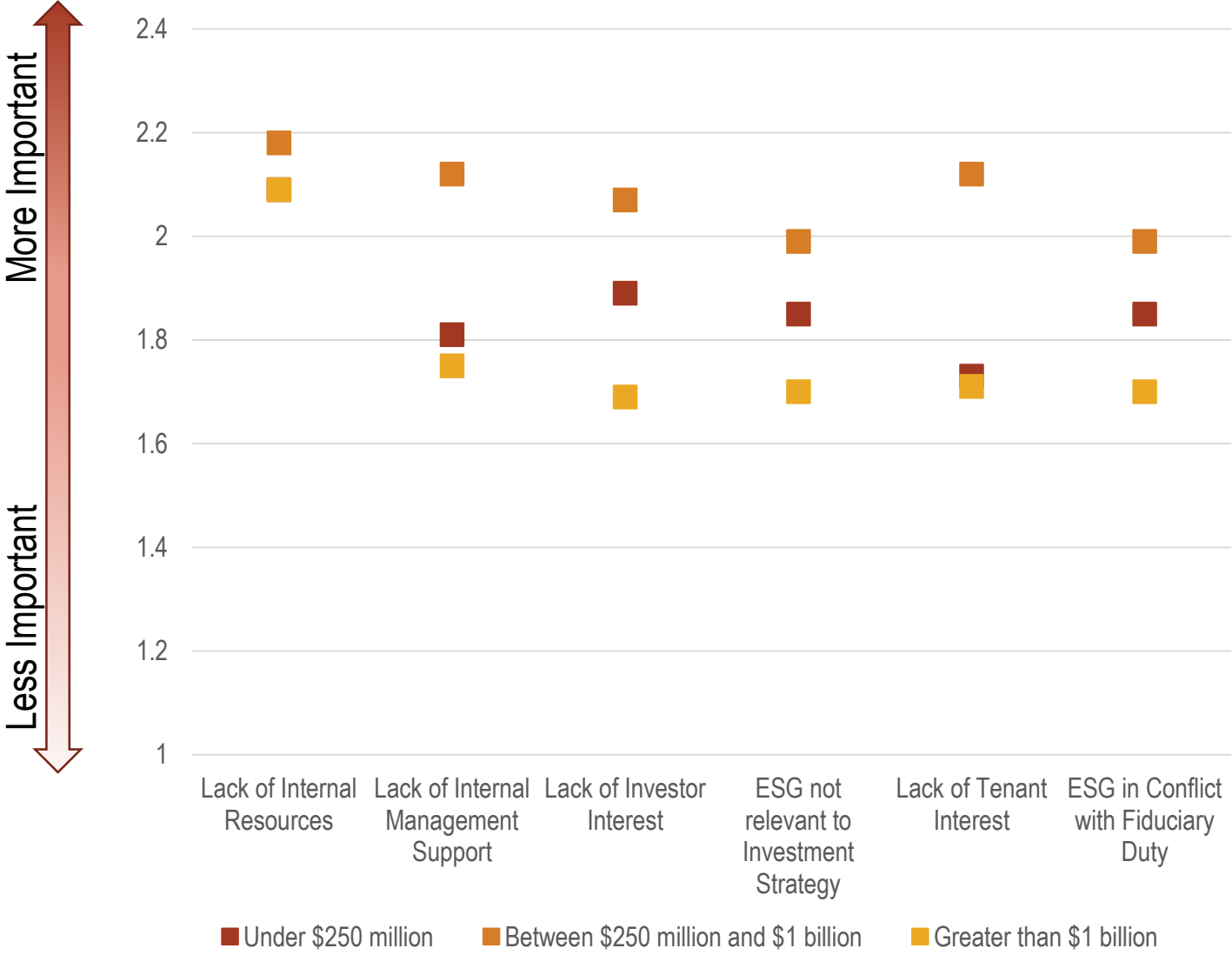
# IMPORTANCE OF FACTORS IN EXPLORING OR ADOPTING ESG POLICIES OR PRACTICES



**A higher score = more important**



# WHAT BARRIERS TO ADOPTION/EXPLORATION EXIST AT YOUR COMPANY



A higher score = more important





# THANK YOU! – QUESTIONS?



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