

INFLATION, RISING RATES AND THE REAL ESTATE OUTLOOK

RCLCO LEADERS DISCUSS THE COMPLEX ECONOMIC
ENVIRONMENT AND THE CURRENT OUTLOOK

RCLCO Monthly Round-Up

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INFLATION, RISING RATES AND THE REAL ESTATE OUTLOOK

Topics

- **Update from May Webinar**
- **Economy**
- **Inflation**
- **Interest Rates**
- **Real Estate Outlook**

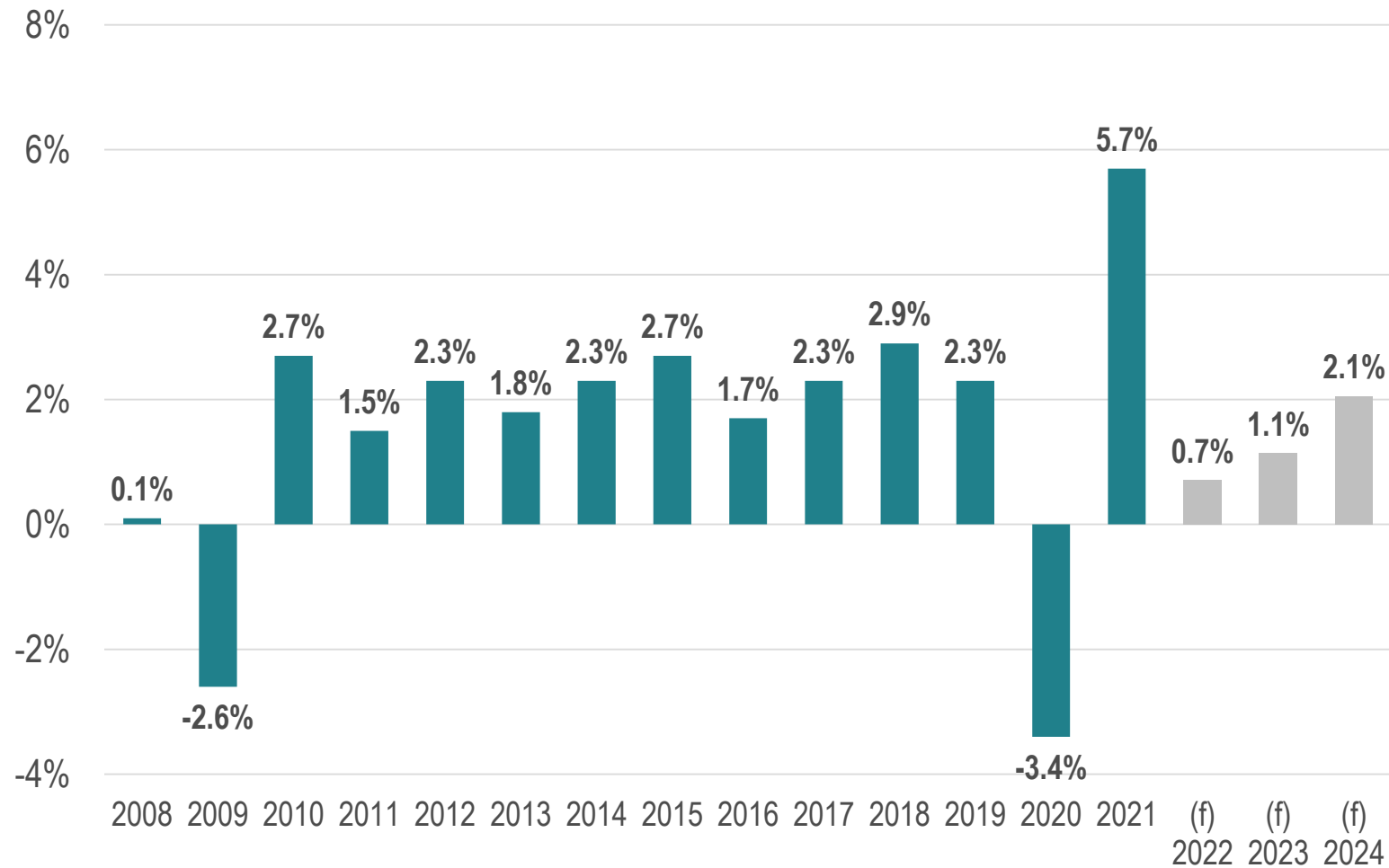
COMMENTS FROM MAY WEBINAR

- **GDP:** “Growth will slow materially over the next 12-24 months, getting close to 0% and 2 consecutive quarters of negative GDP is possible.”
- **Interest rates:** “The yield curve and the market implied rate are both pointing to a mid 3% 10 Year UST over the mid-term. That seems about right to me.”
- **Cap rates:** “There will be some moderate upward pressure on cap rates over the next year or so particularly if economic growth slows.”
- **Real Estate Returns:** “Real estate will perform better than many other sectors in a downturn.”
- **Single Family Market:** “Higher mortgage rates will slow down prices increases but not lead to falling prices on average. It will also impact first time buyers more than the high end of the market.”

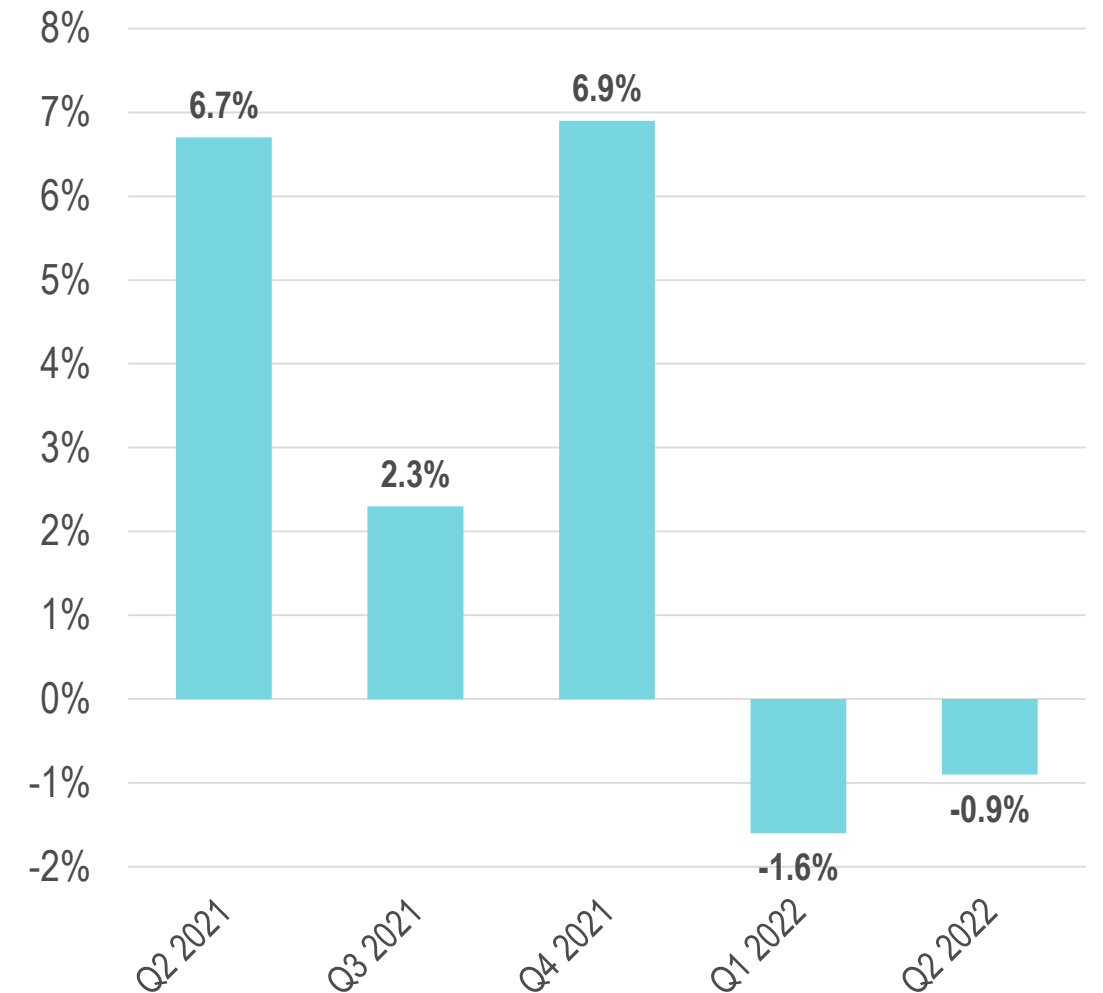
ARE WE IN A RECESSION?

Official Recession Unlikely Due to Strong Job Market

U.S. Real GDP Annual Change



Annualized Quarterly Change in U.S. Real GDP



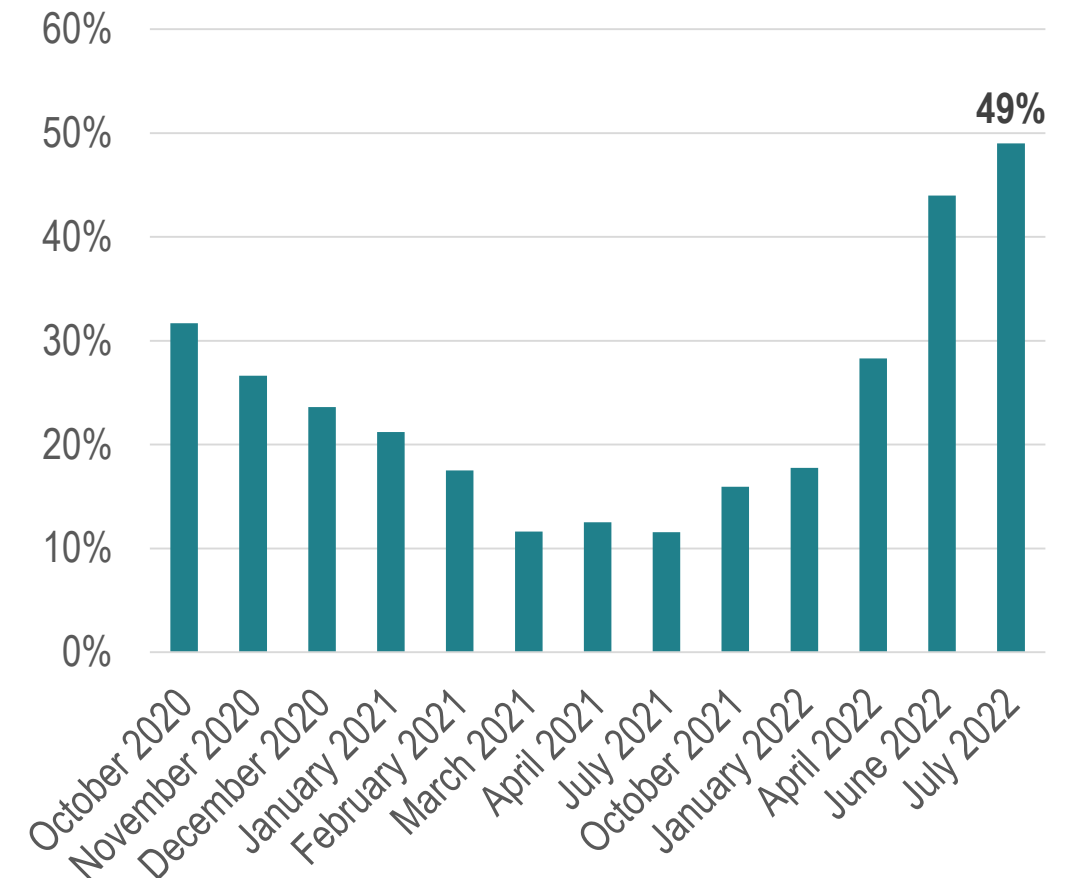
PROBABILITY OF RECESSION CONTINUES TO RISE

RCLCO Sentiment Survey More Bearish Than Most

Probability of Recession

	As Of	Time-frame (mos.)	Probability
Goldman Sachs	Jul-22	12	30%
Bank of America	Jun-22	12	40%
Moody's	Jul-22	12-24	40%
Bloomberg Survey	Jul-22	12	48%
WSJ Survey	Jul-22	12	49%
Morgan Stanley	Jun-22	12	50%
RCLCO Sentiment Survey	Jun-22	12 / 24	54 / 92%
JP Morgan Chase	Jun-22	12	85%
Deutsche Bank	Apr-22	12	100%
Wells Fargo Investment Institute	Jul-22	H2 2022	100%

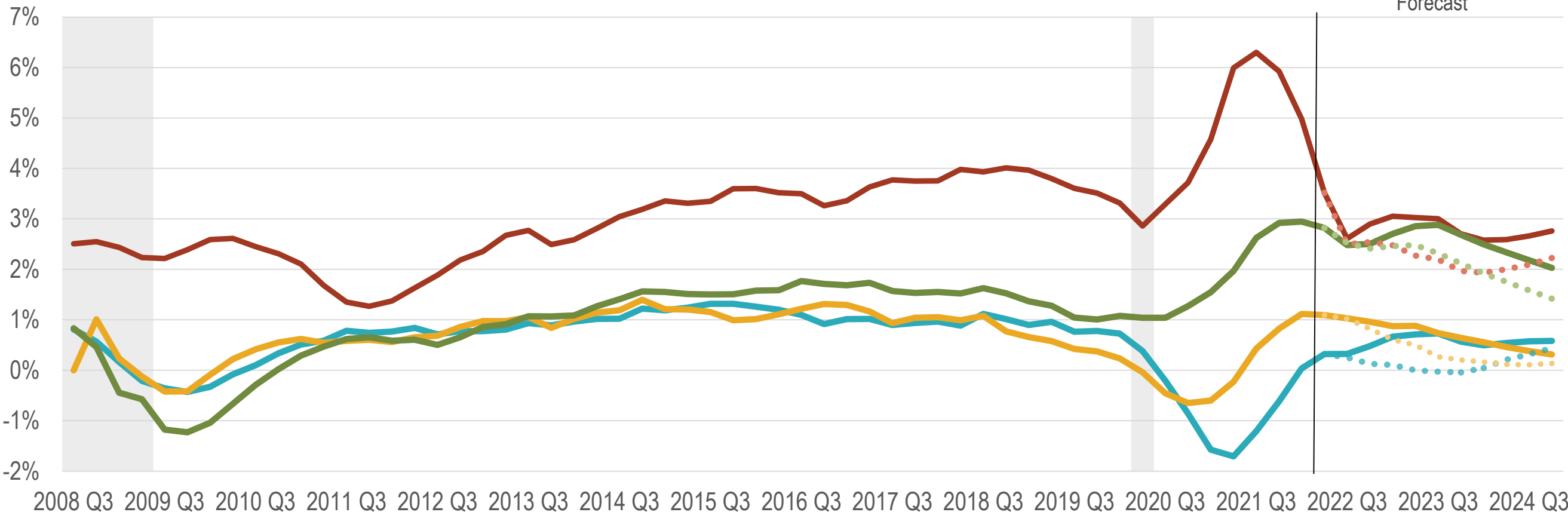
WSJ Probability of Recession in Next 12 Months



REAL ESTATE DEMAND TO STAY POSITIVE IN DOWNTURN

Apartment Demand Returning to Normal After Big Spike

Absorption as % of Inventory (trailing 4Q)

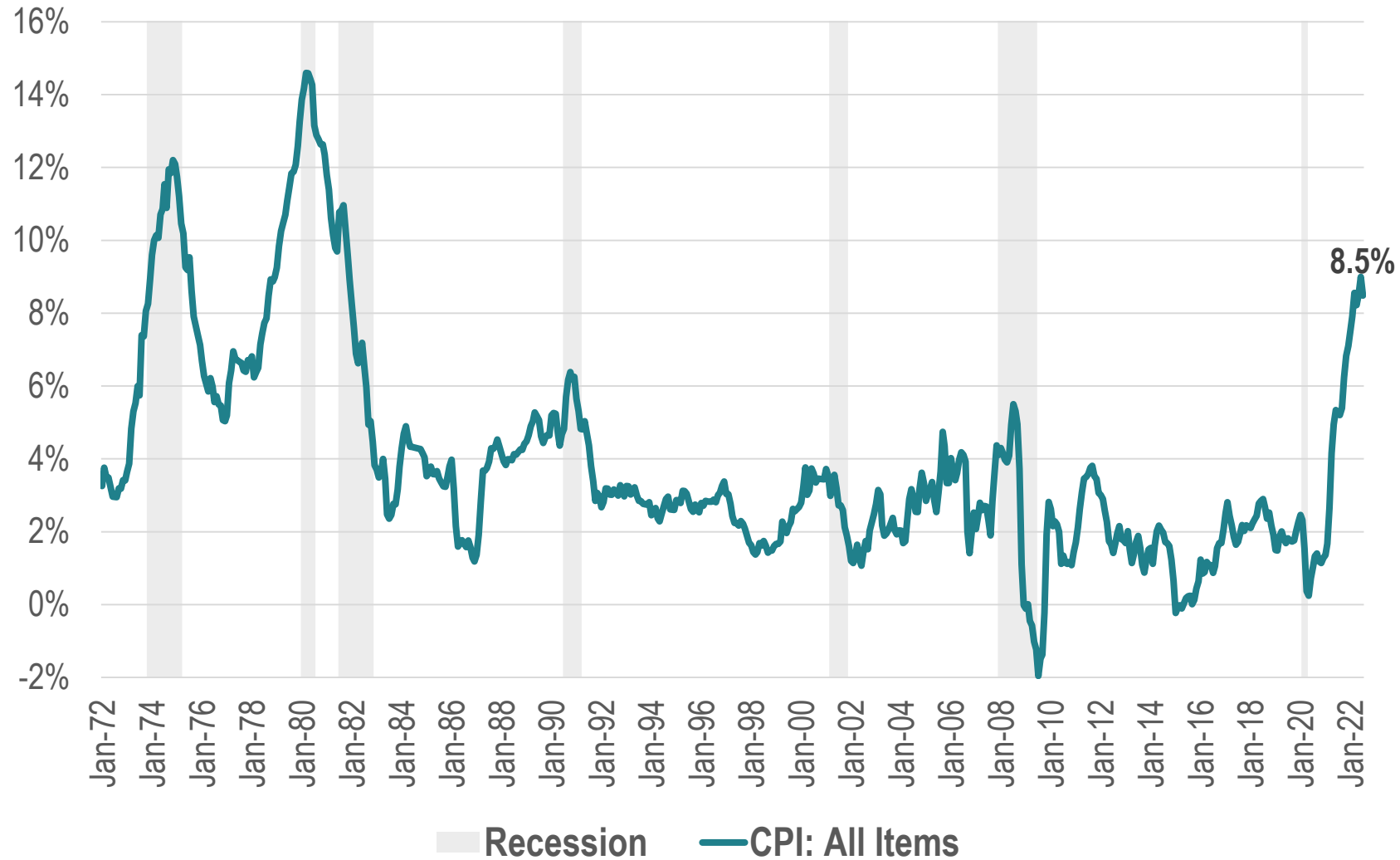


Recession Multifamily Office Retail Industrial Moderate Downside

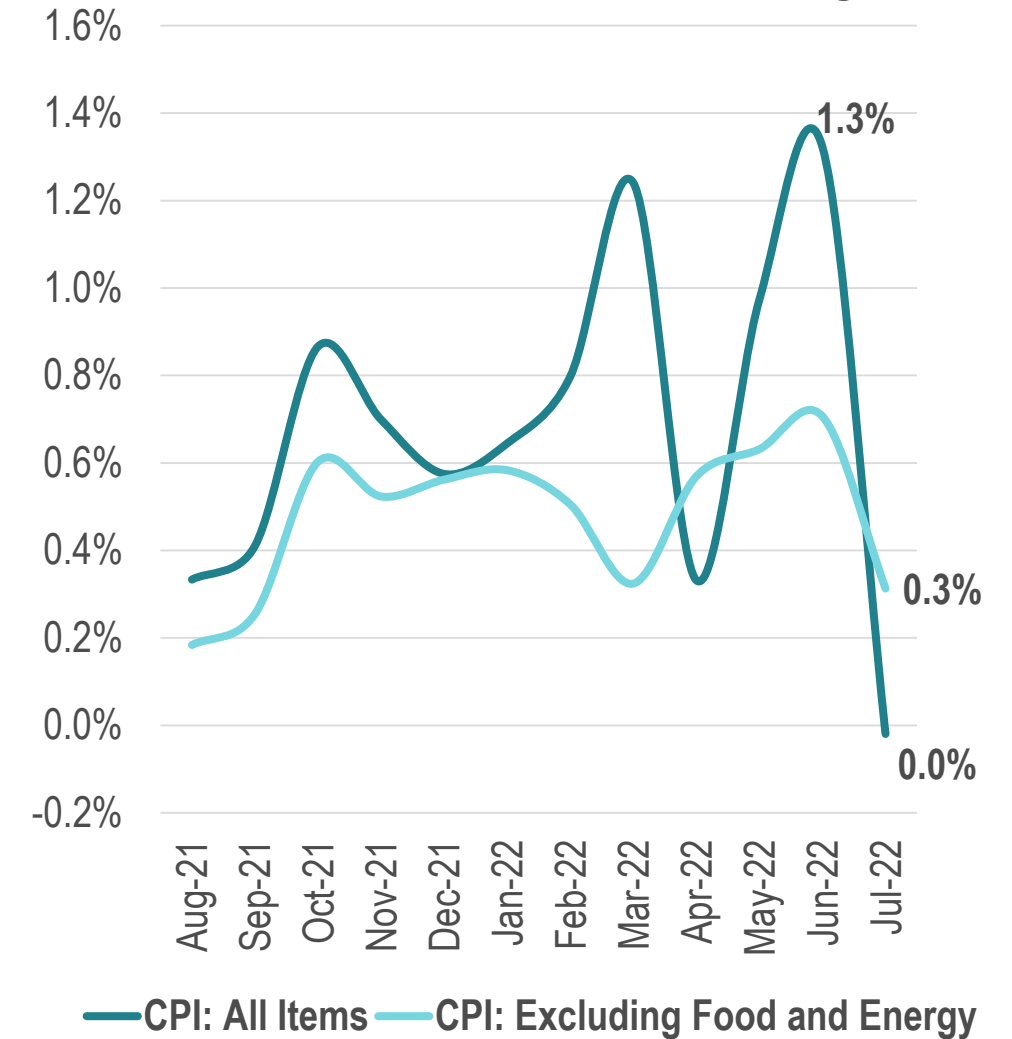
HEADLINE INFLATION WAS FLAT IN JULY AS ENERGY PRICES MODERATED

Core Inflation Still Above Fed Target

Trailing 12-Month CPI Inflation



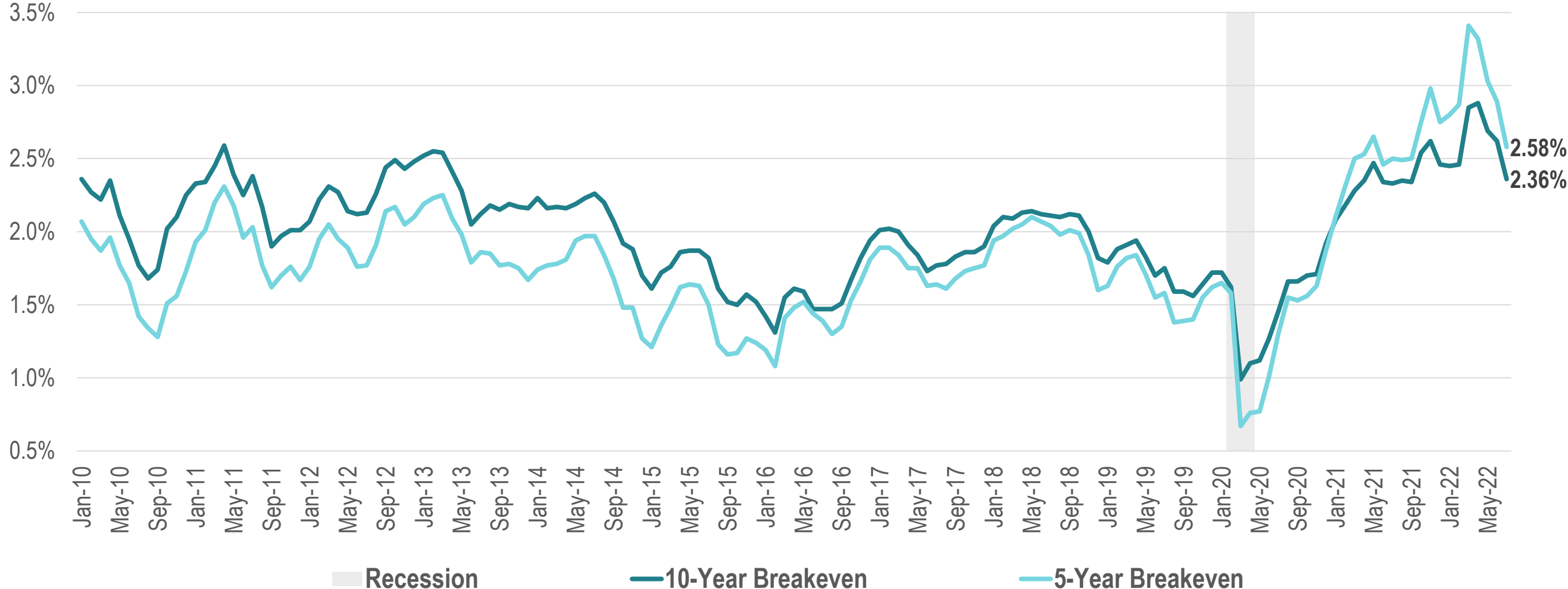
Month-over-Month CPI Change



TIPS BREAKEVEN INFLATION RATES DOWN IN 2022 BUT ABOVE FED TARGET

Inflation Expectations Are Cooling, Providing Good News to Policy Makers

TIPS-Implied Breakeven Inflation Rate



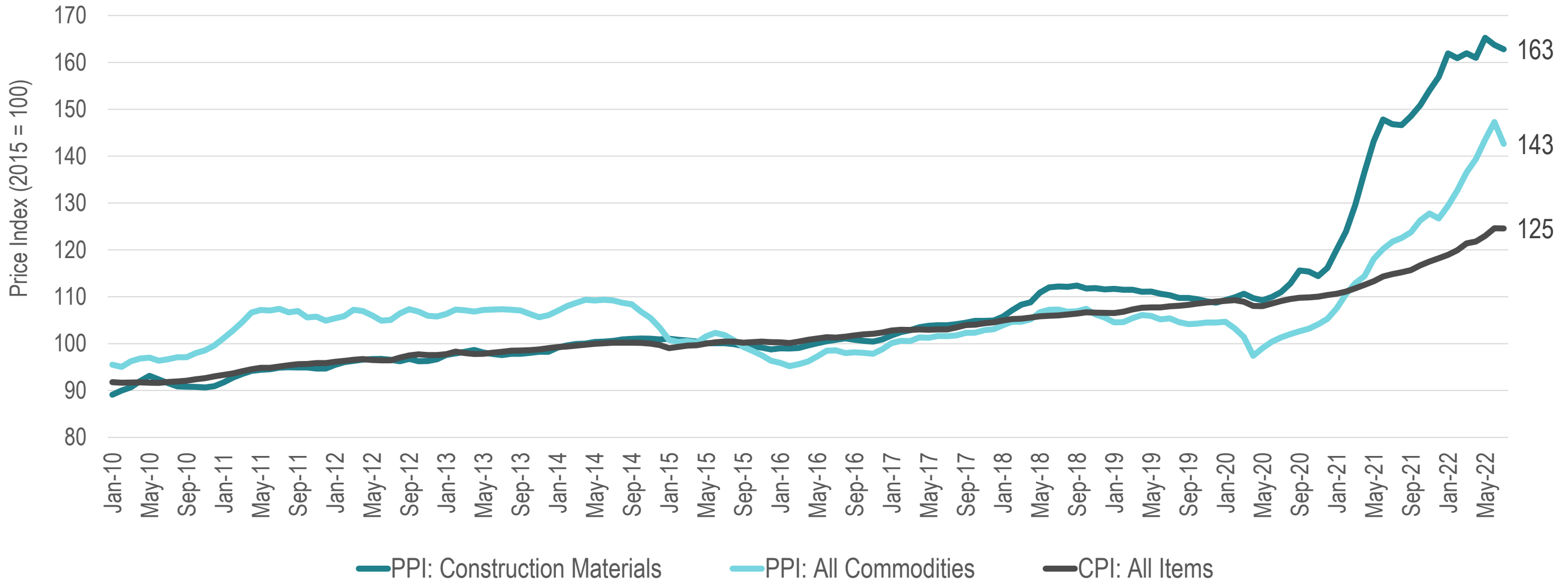
The information contained in this report is confidential, may be legally privileged, and is intended only for the use of select clients of RCLCO Fund Advisors.

Note: The breakeven inflation rate is calculated by subtracting the yield on treasury inflation-protected securities (TIPS) from the yield on non-protected securities; inflation at this rate equalizes real yields on the two securities.
 Source: Federal Reserve Bank of St. Louis

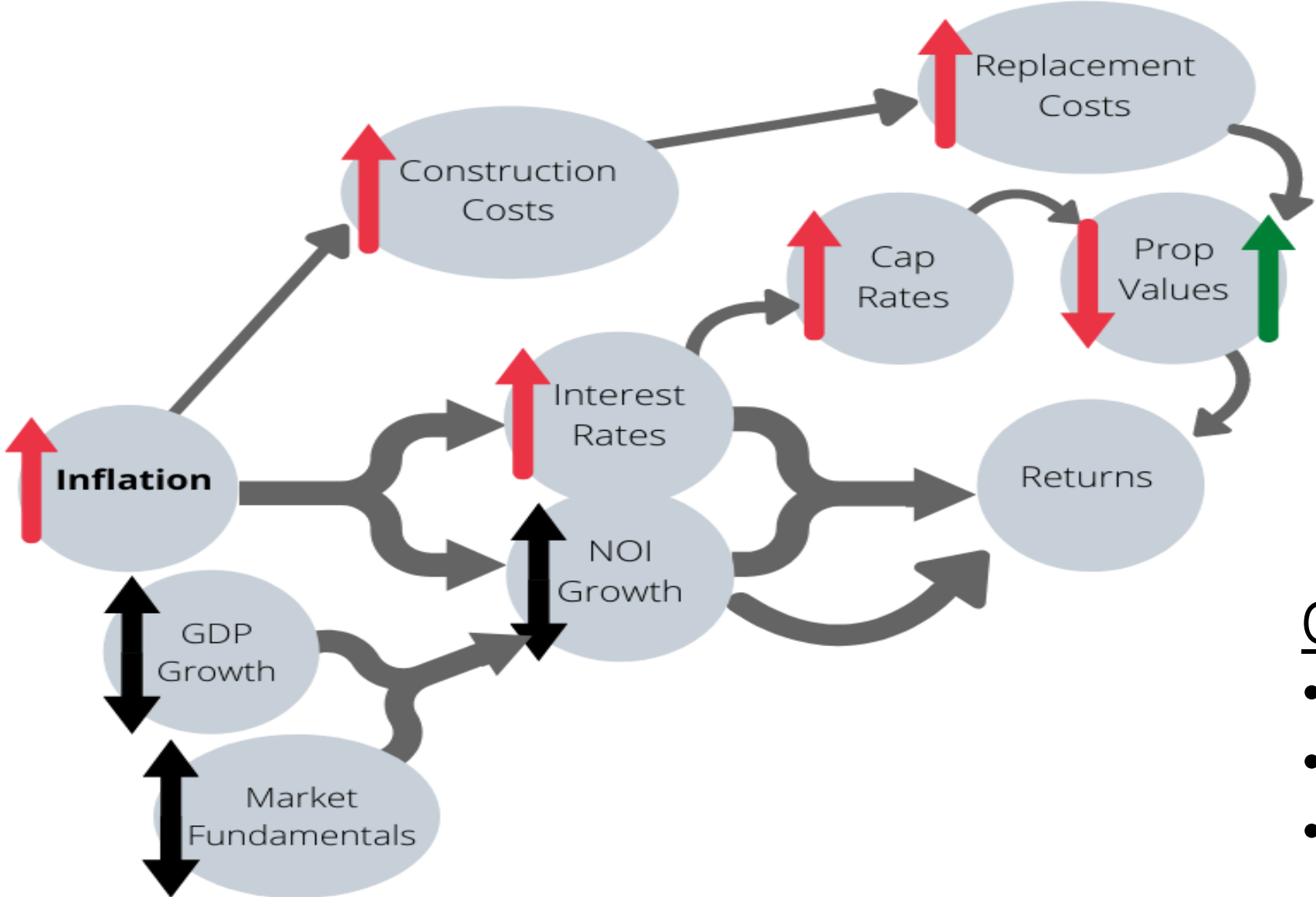
CONSTRUCTION COST RISES SLOWING IN 2022 AFTER BIG INCREASE IN 2021

Producer Prices Fell in July but Were Up 17.2% YoY, Double Consumer Price Inflation

Production and Consumer Price Indices



INFLATION'S EFFECT ON REAL ESTATE PERFORMANCE

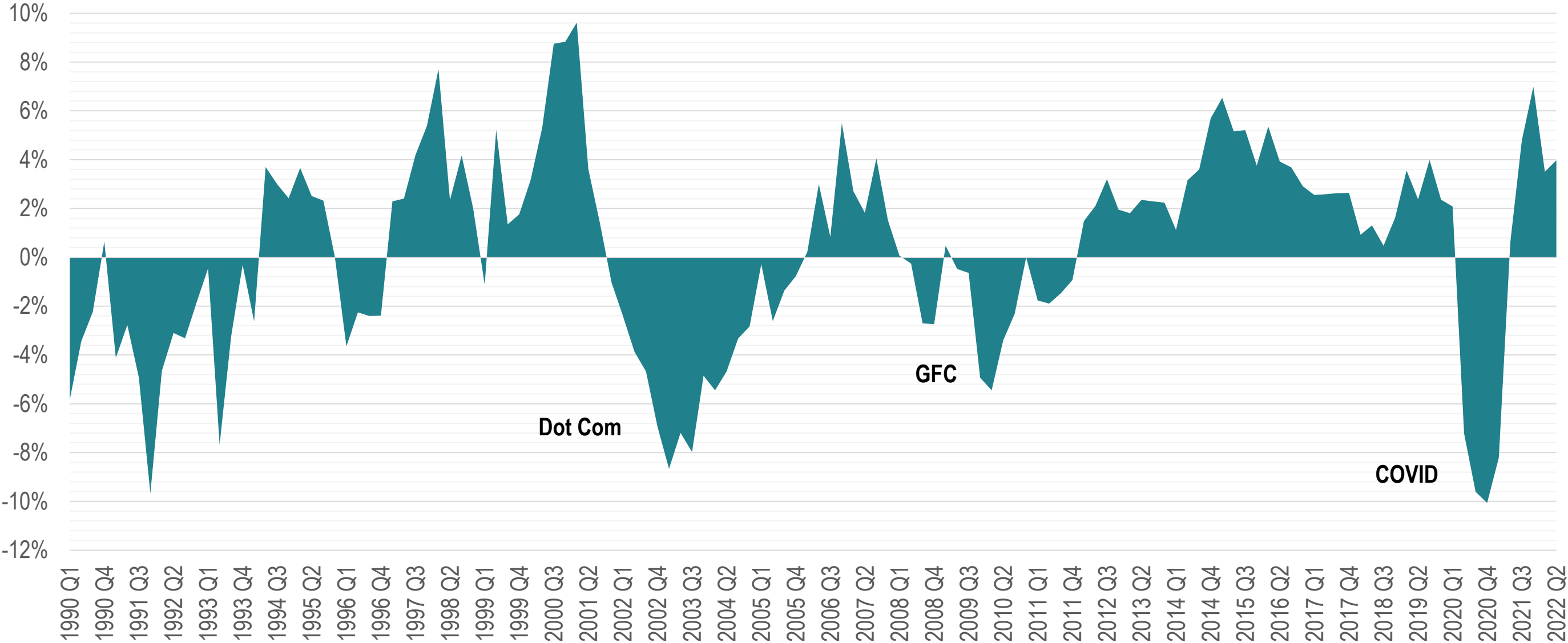


Other Factors

- Equity Flows
- Debt Availability
- Lender Forbearance

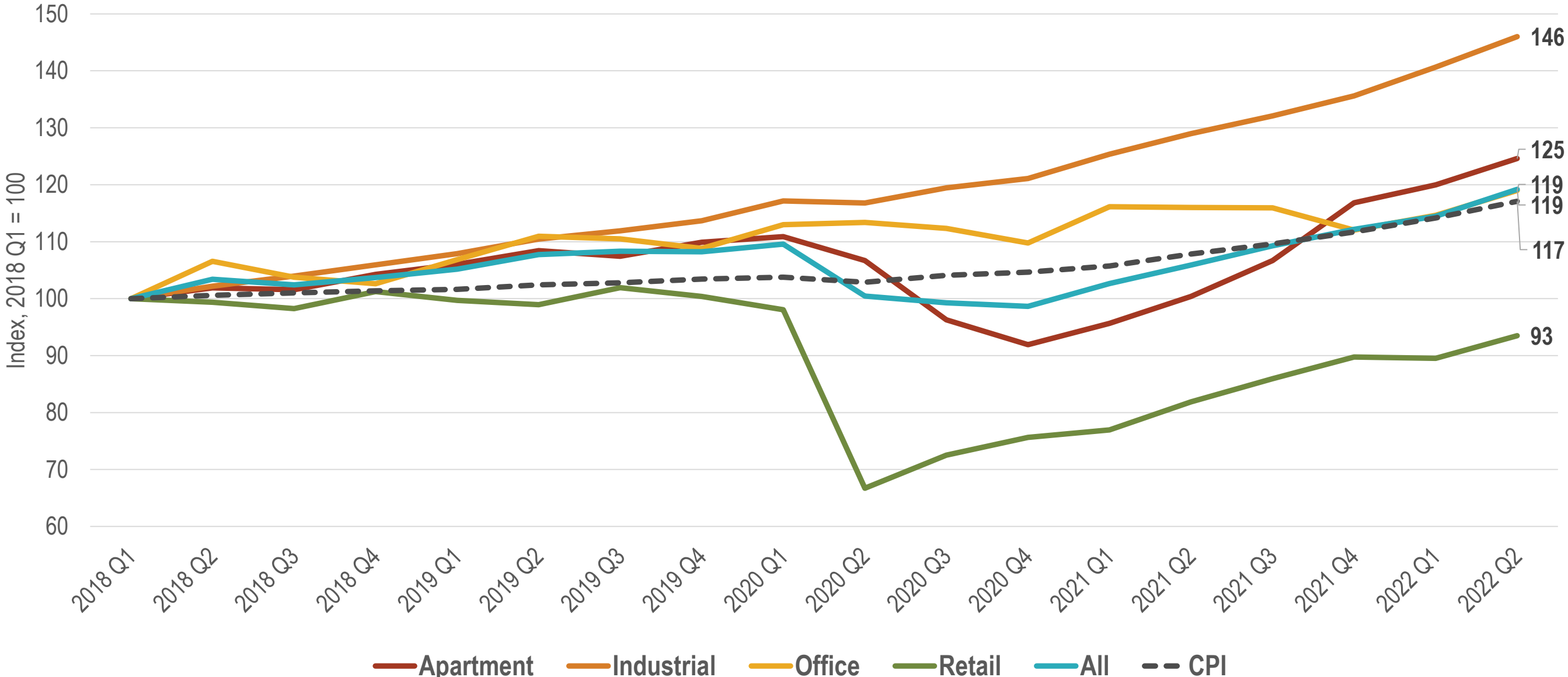
NCREIF NOI GROWTH OUTPACES INFLATION DURING ECONOMIC EXPANSIONS

Trailing Year NOI Change Less CPI



SAME PROPERTY NOI INDEX – BIG VARIATION BY PROPERTY TYPE

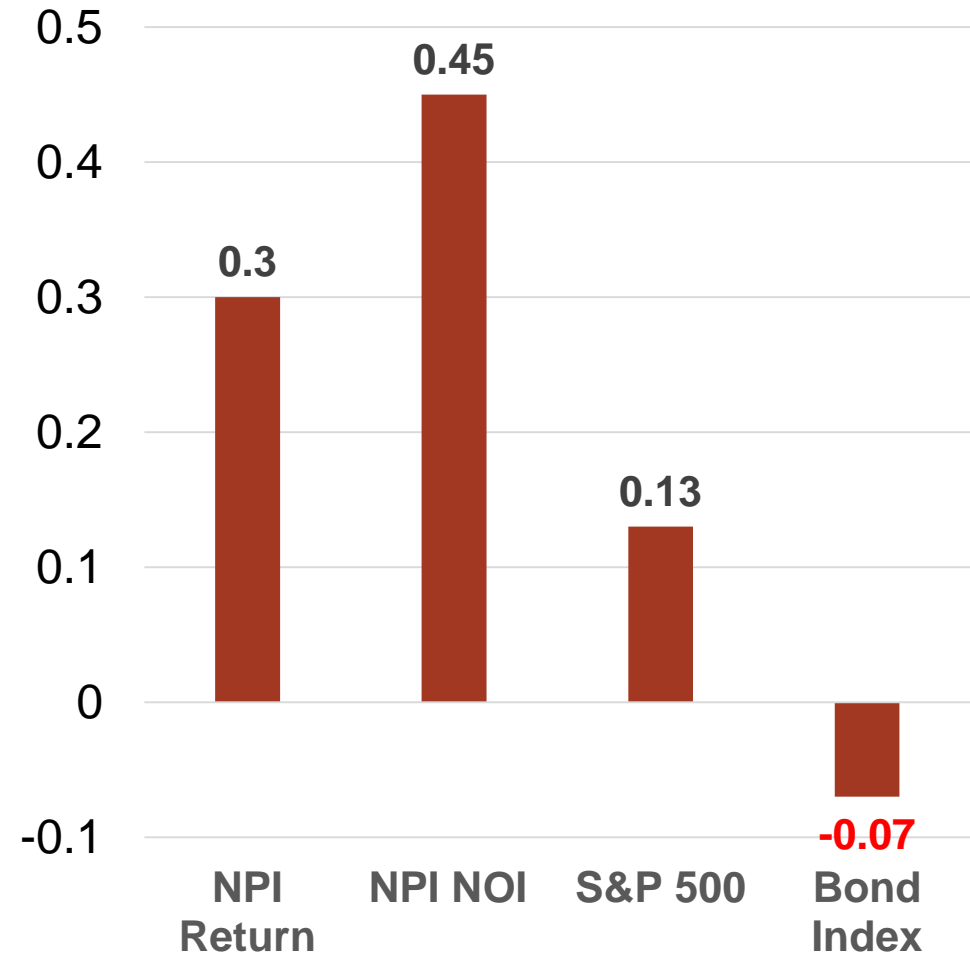
NPI Same Property NOI Index



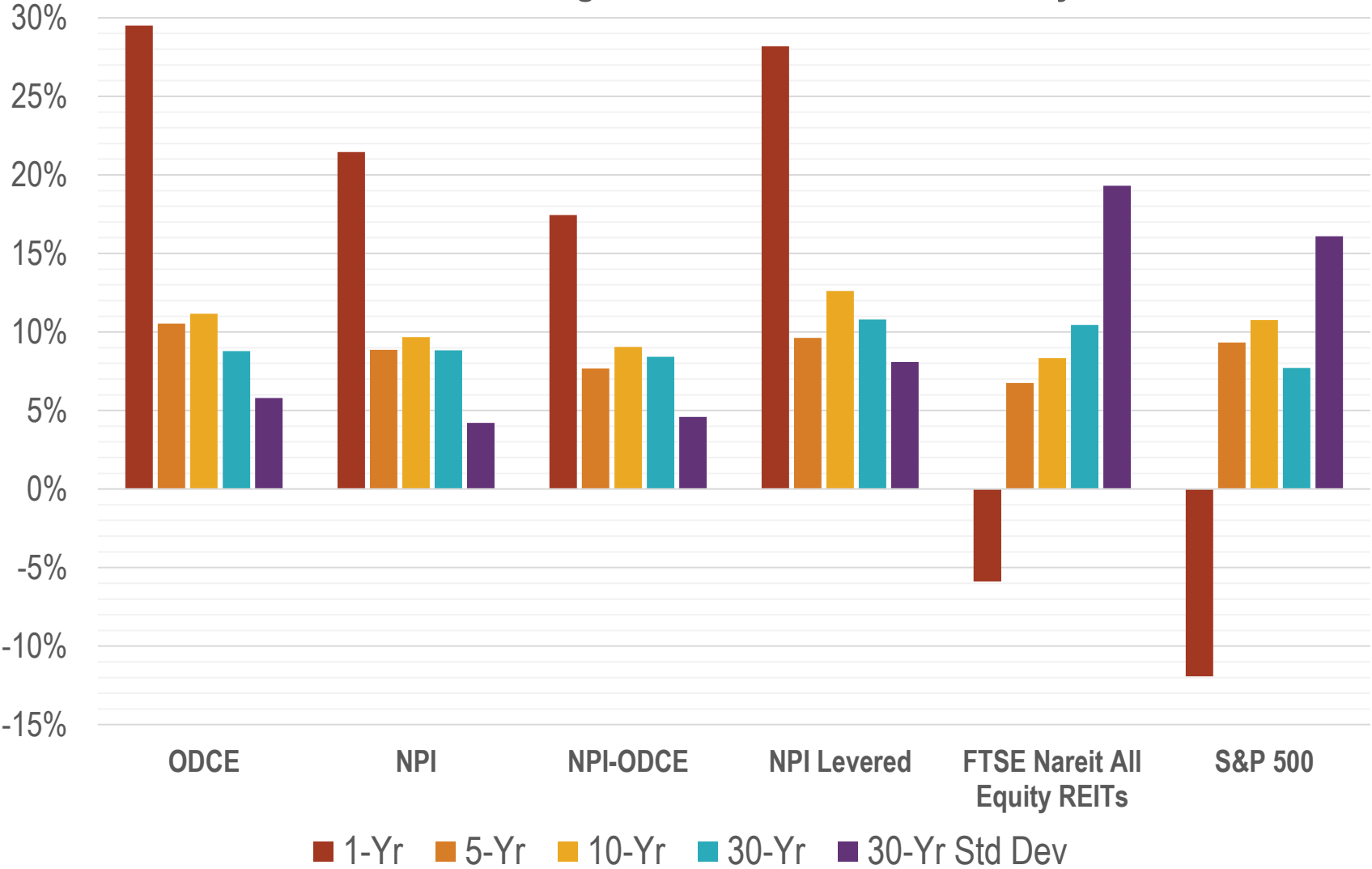
REAL ESTATE TRACKS INFLATION BETTER THAN MOST OTHER ASSET CLASSES

Recent ODCE Returns at Record Levels

Correlations with CPI, 1992-2021



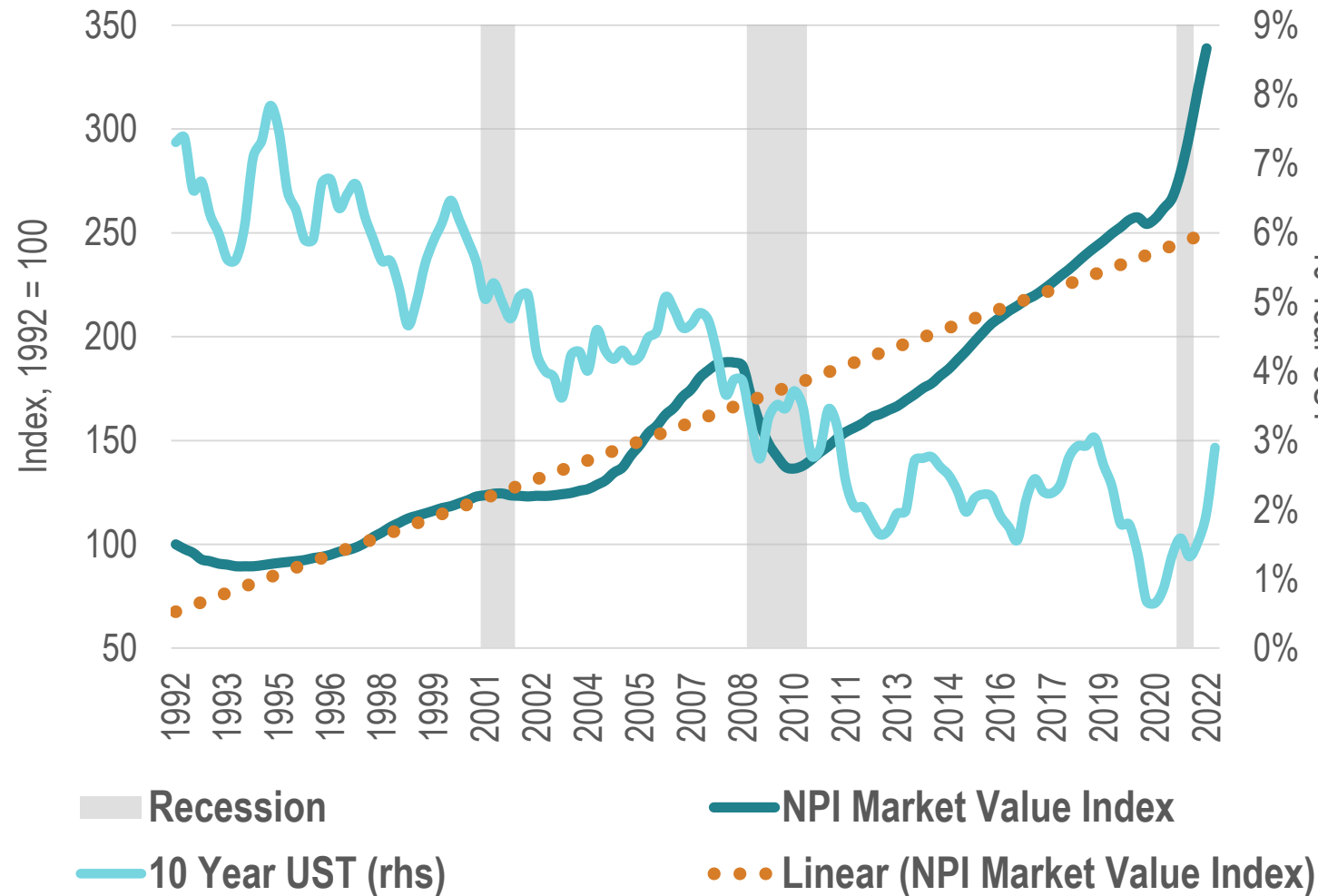
Avg Annual Returns and Volatility



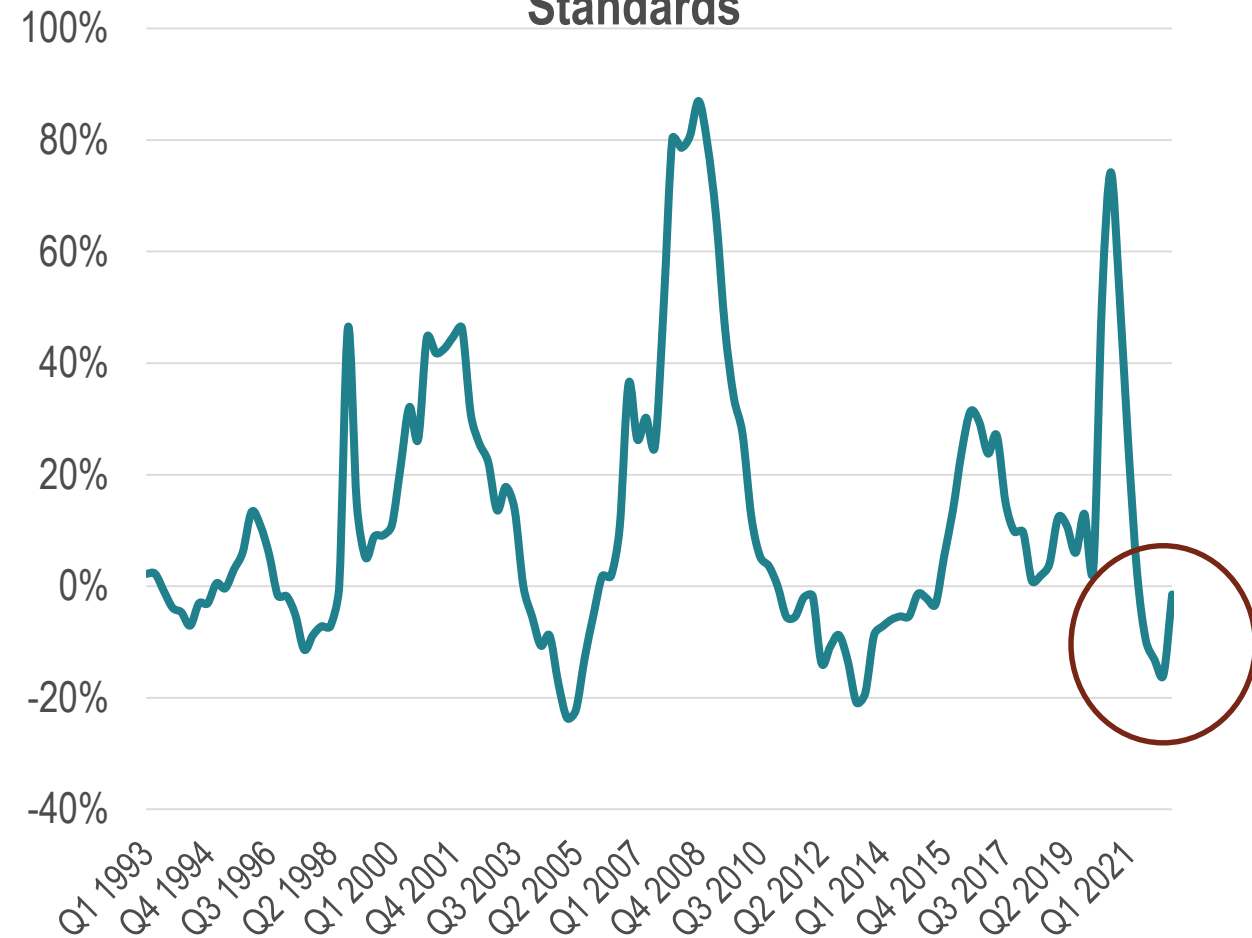
WHERE ARE REAL ESTATE CAP RATES AND VALUES HEADING

Higher Interest rates, tighter lending to pressure cap rates

Indexed NPI Market Value and 10 Year UST



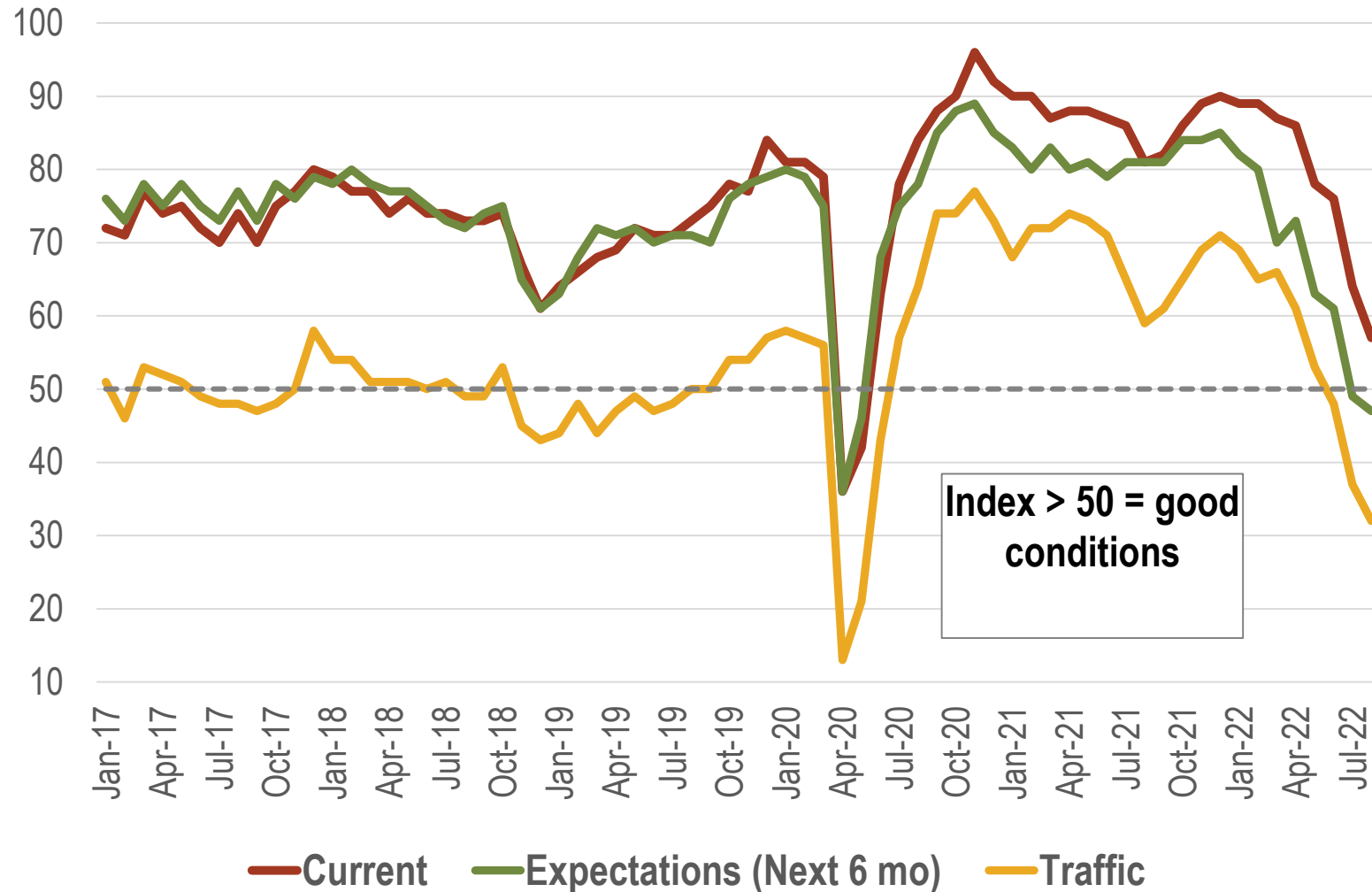
Net % of Banks Tightening Lending Standards



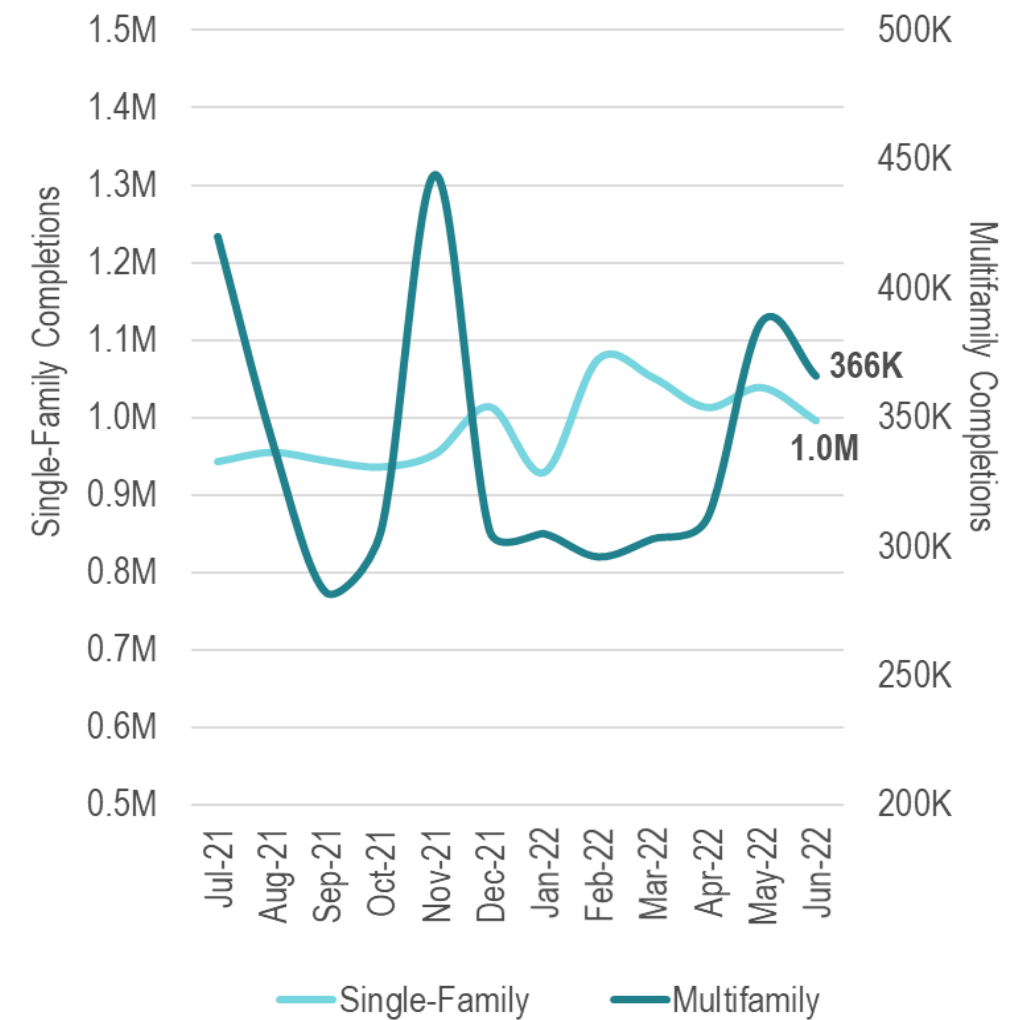
HOW MUCH OF A CORRECTION WILL THE HOUSING MARKET UNDERGO?

Worsening Affordability Has Weighed On Home Sales

NAHB Housing Market Index Components



Monthly Housing Completions (SAAR)



THANK YOU! – QUESTIONS?



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