



UPDATE AND OUTLOOK FOR REAL ESTATE CAPITAL MARKETS

RCLCO Monthly Webinar

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TODAY'S PANELISTS



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AGENDA

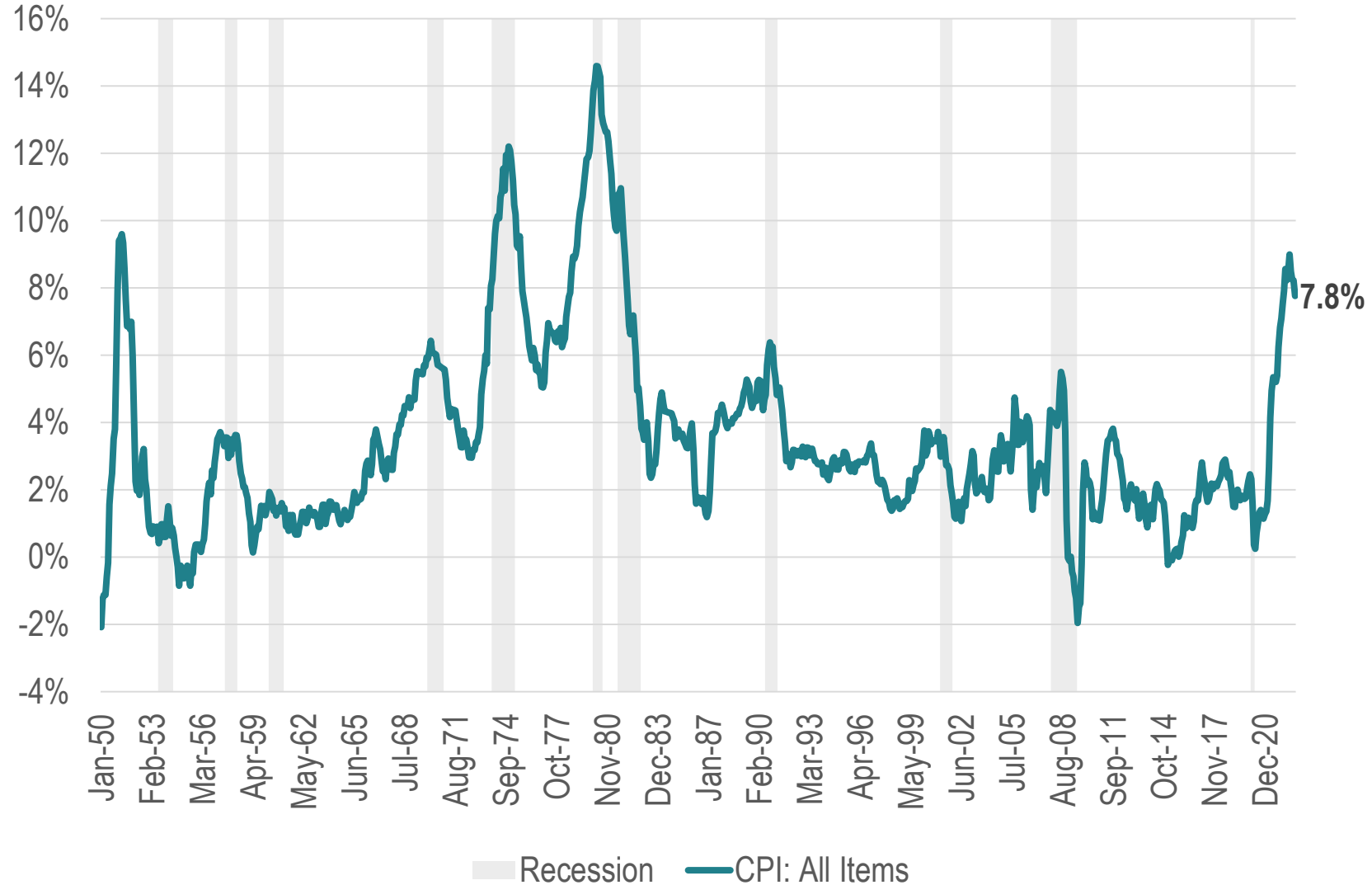
- ▶ **Macroeconomic Environment**
 - » William Maher
- ▶ **Residential Real Estate Update**
 - » Gregg Logan
- ▶ **Q&A**

MACROECONOMIC ENVIRONMENT

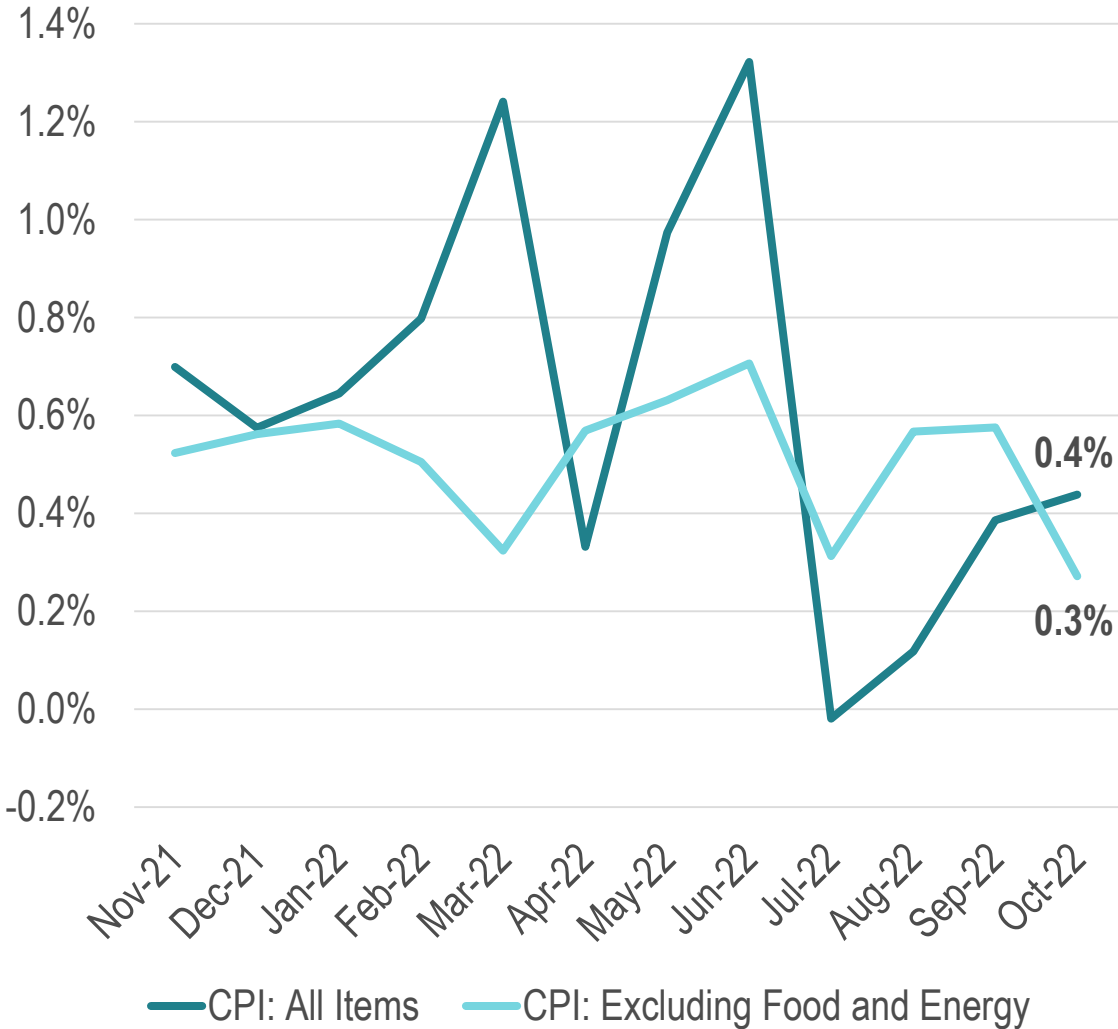
CORE INFLATION DECLINED IN OCTOBER, BOOSTING STOCKS AND BONDS

CPI All Items All Urban Consumers Up 7.8% YoY, Core CPI Excluding Food and Energy Up 6.3%

Trailing 12-Month CPI Inflation



Month-over-Month CPI Change

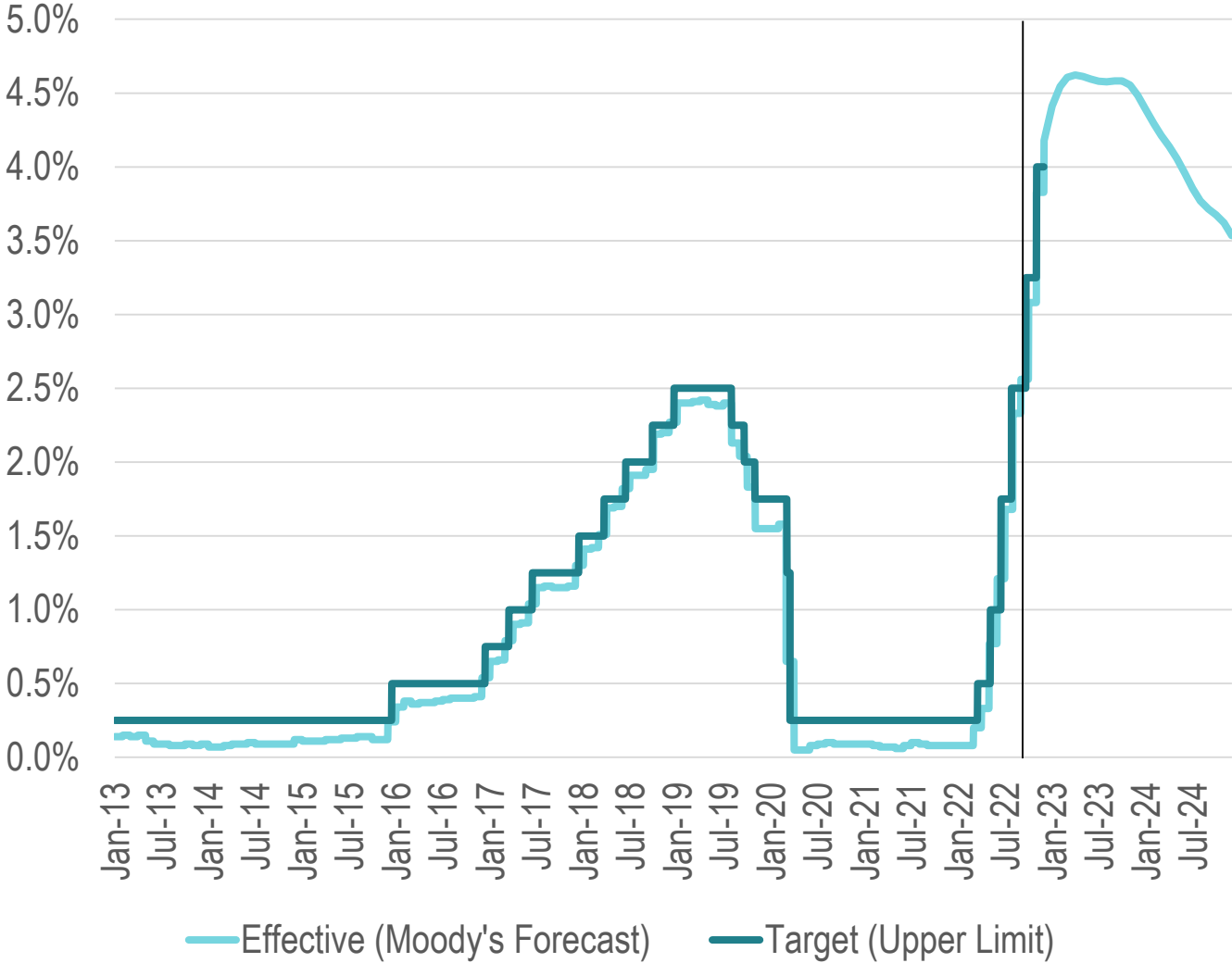


Data are as of October 2022.
 Note: Figures represent seasonally adjusted CPI.
 Source: U.S. Bureau of Labor Statistics; Federal Reserve Bank of St. Louis

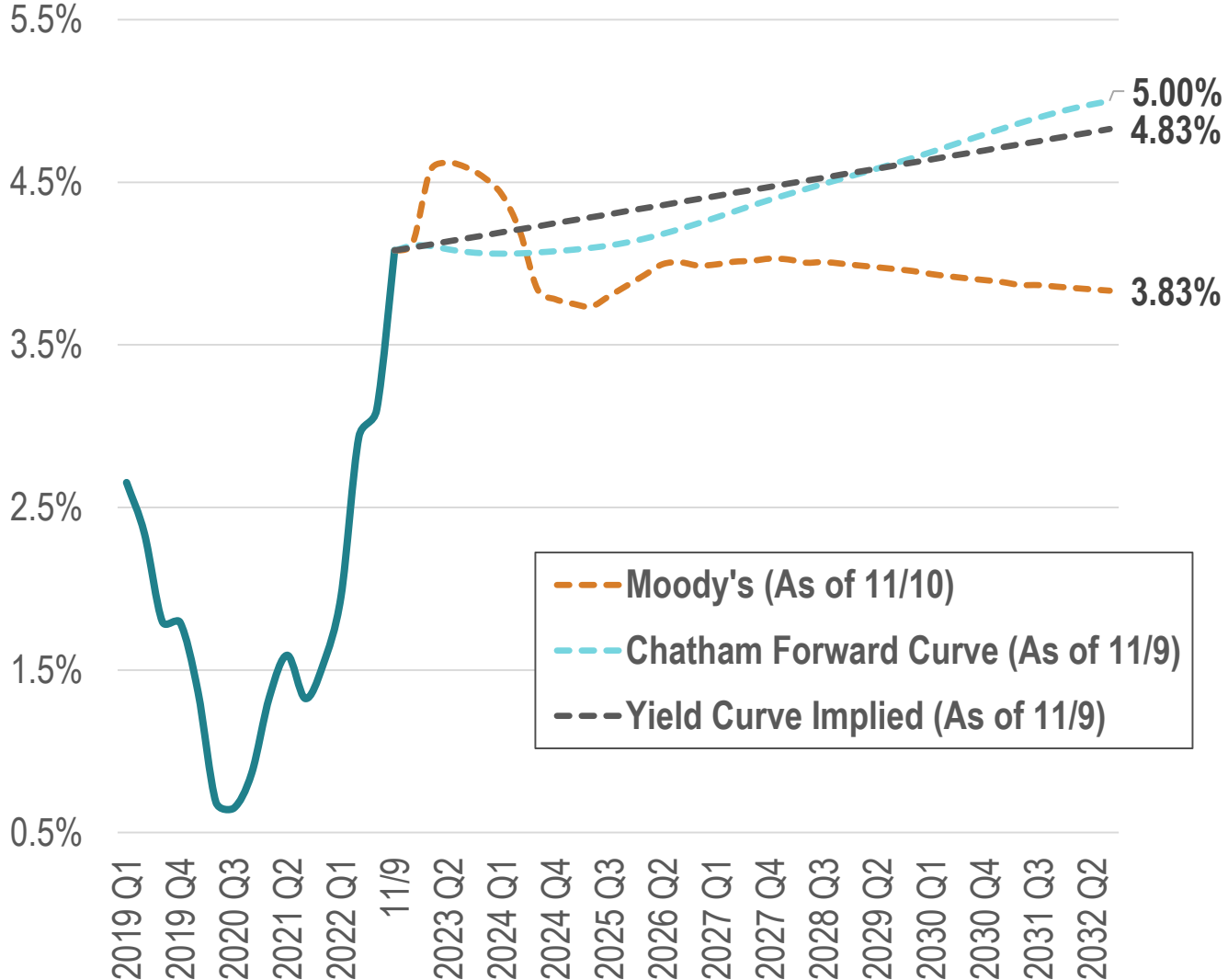
FOURTH CONSECUTIVE 75-BPS RATE HIKE IN NOVEMBER

Tight Labor Market Likely to Keep Pressure on the Fed

Federal Funds Rate



10-Year US Treasury Yield and Forecasts



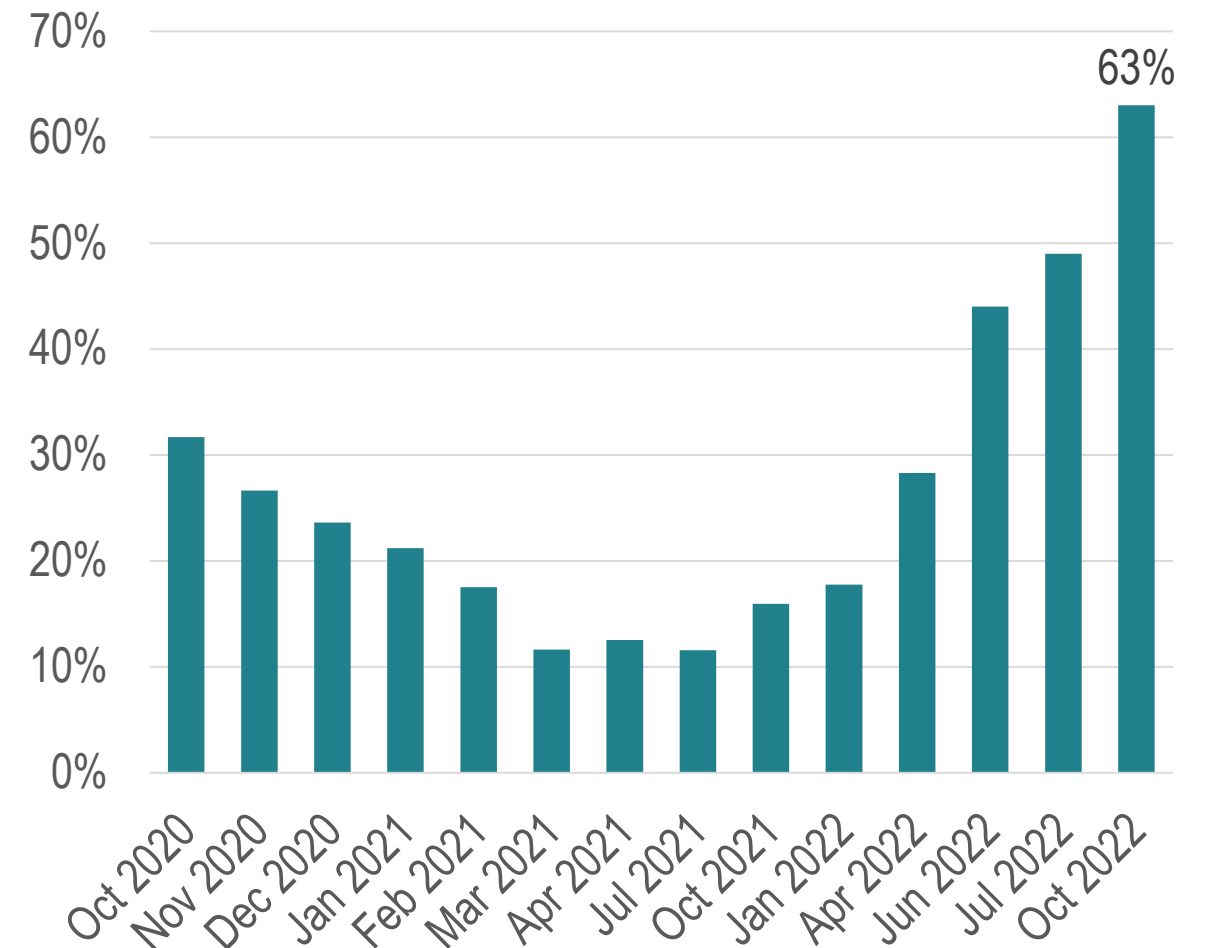
PROBABILITY OF RECESSION CONTINUES TO RISE

Yield Curve Has Been Inverted Since July Which is Historically a Warning Sign

Probability of Recession

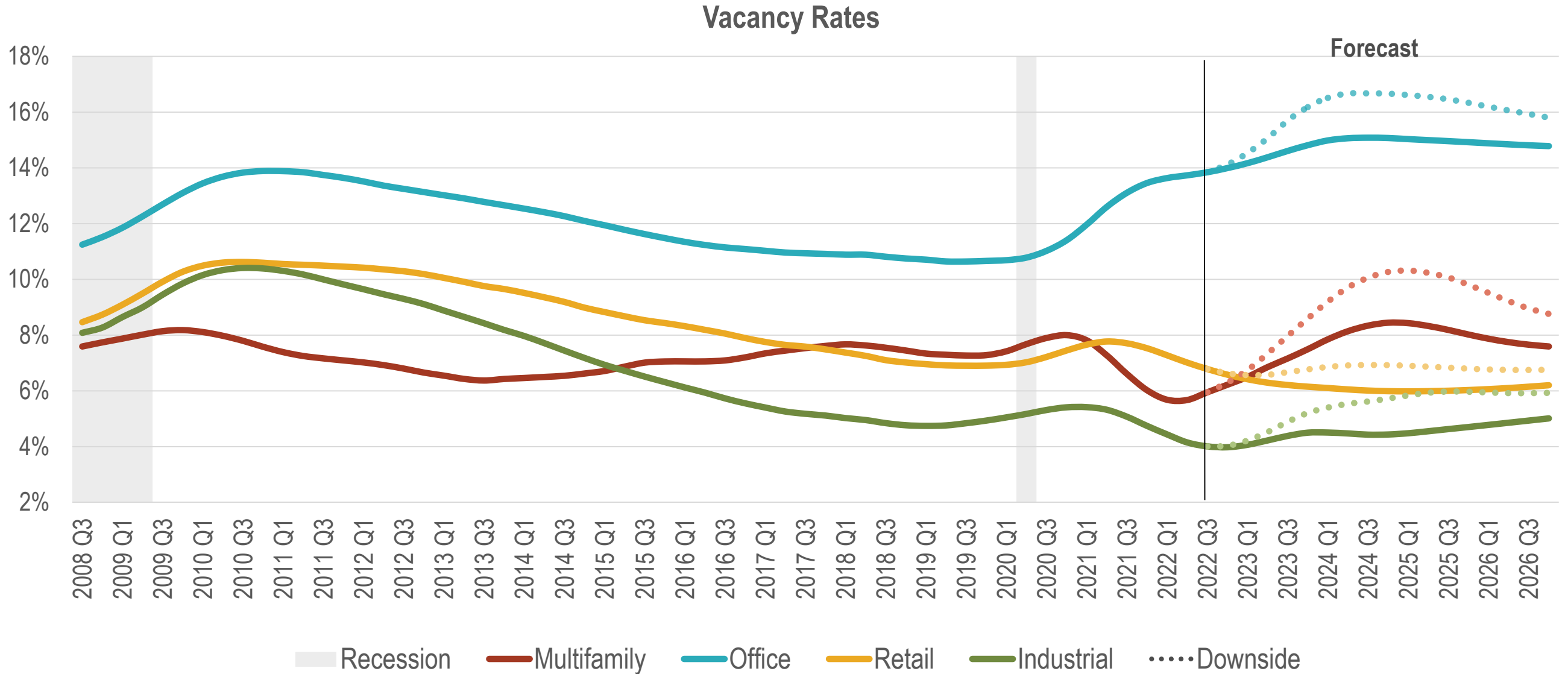
	As Of	Time-frame (mos.)	Probability
Goldman Sachs	Oct-22	12	35%
RCLCO Sentiment Survey	Jun-22	12/24	54/92%
Moody's	Sep-22	12	60%
Bloomberg Survey	Oct-22	12	60%
WSJ Survey	Oct-22	12	63%
Bankrate Survey	Oct-22	12-18	65%
JP Morgan Chase	Sep-22	12	92%
Deutsche Bank	Apr-22	12	100%
Bloomberg Economics	Oct-22	12	100%
Wells Fargo	Jul-22	12	100%
NAHB	Oct-22	12	100%

WSJ Probability of Recession in Next 12 Months



VACANCIES EXPECTED TO INCREASE WITH ECONOMY SLOWDOWN

Apartment Vacancies to Increase to Long-term Average by 2024, Retail Vacancies to Stay Low



Data as of October 2022.

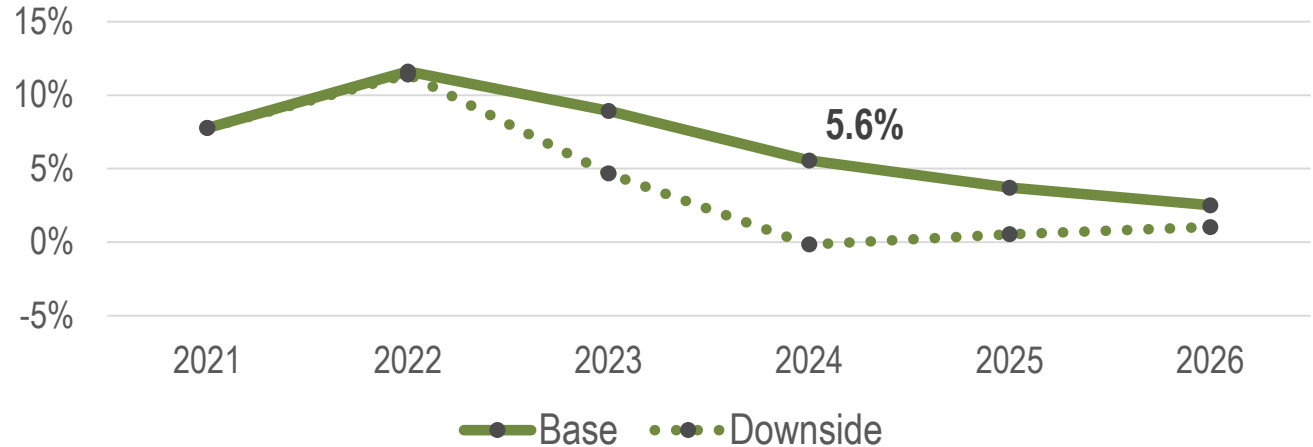
Notes: Vacancy rates are rolling four-quarter averages; retail data refer to neighborhood centers; office and apartment data are filtered for Class A & B.

Source: CoStar

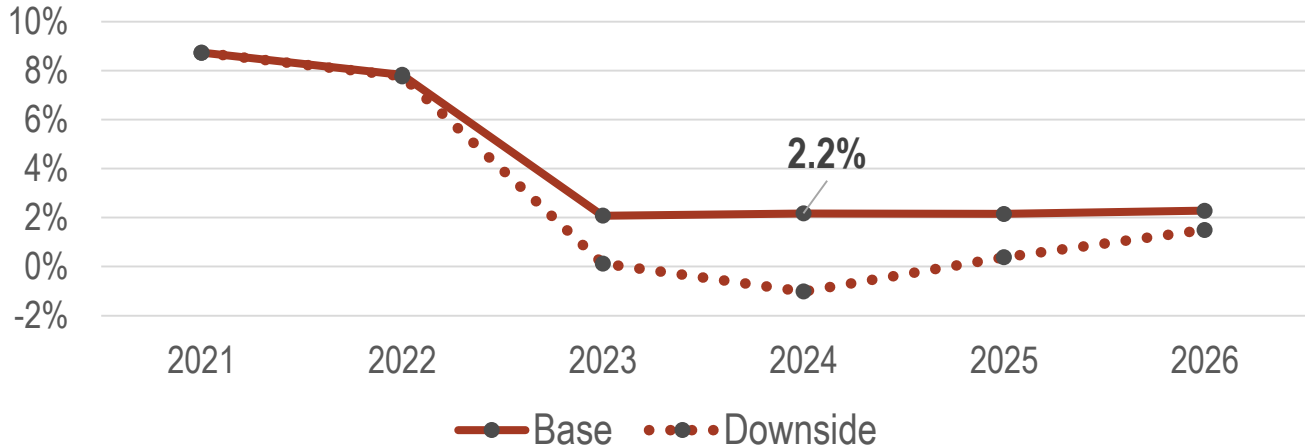
OFFICE AND RETAIL RENTS TO SUFFER MOST IN A DOWNTURN

Industrial and Apartment Rent Growth Projected to Moderate and Hover Around 0% In a Downturn

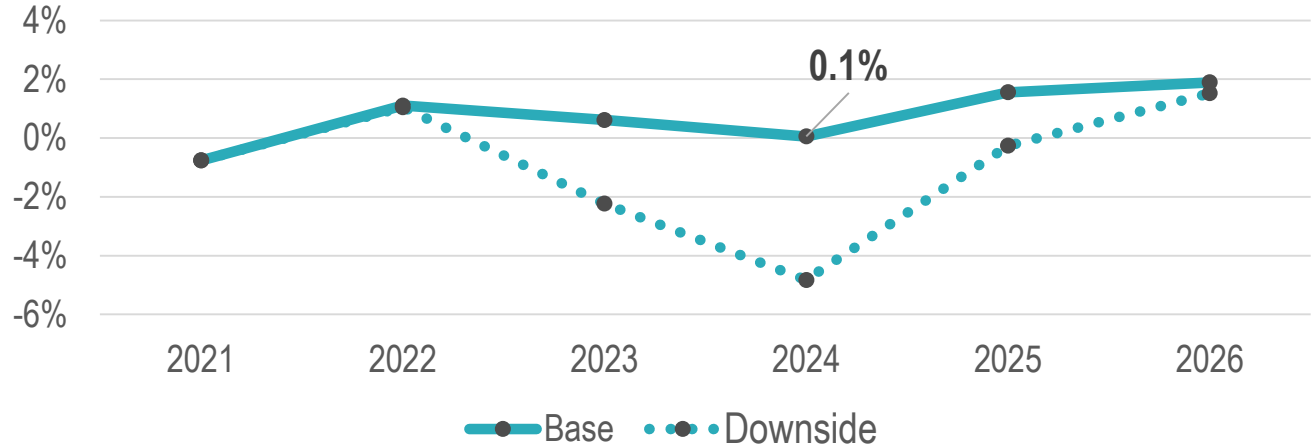
Industrial Rent Growth



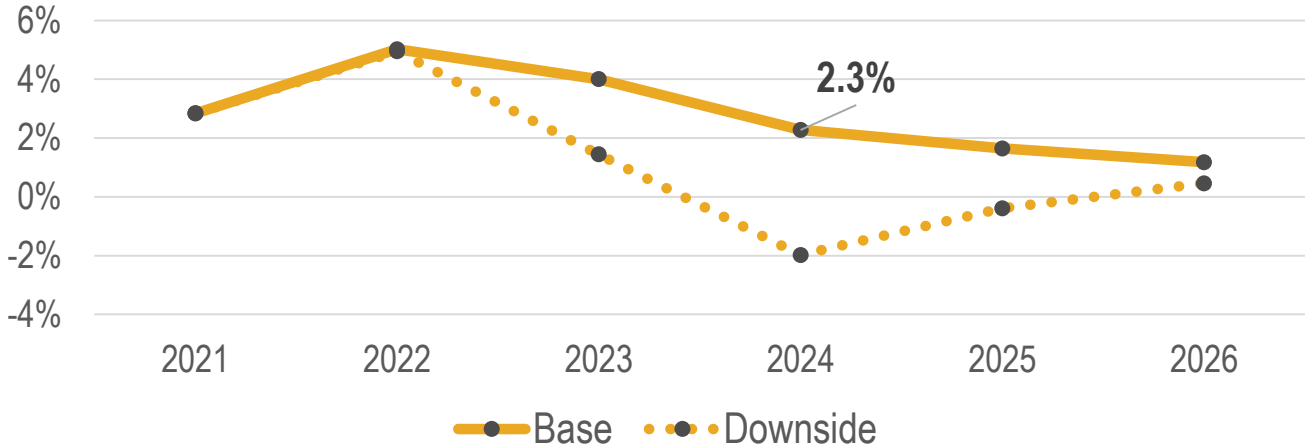
Multifamily Rent Growth



Office Rent Growth



Neighborhood Retail Rent Growth



Data as of October 2022.

Notes: Rent growth rates are rolling four-quarter averages; retail data refer to neighborhood centers; office and apartment data are filtered for Class A & B.

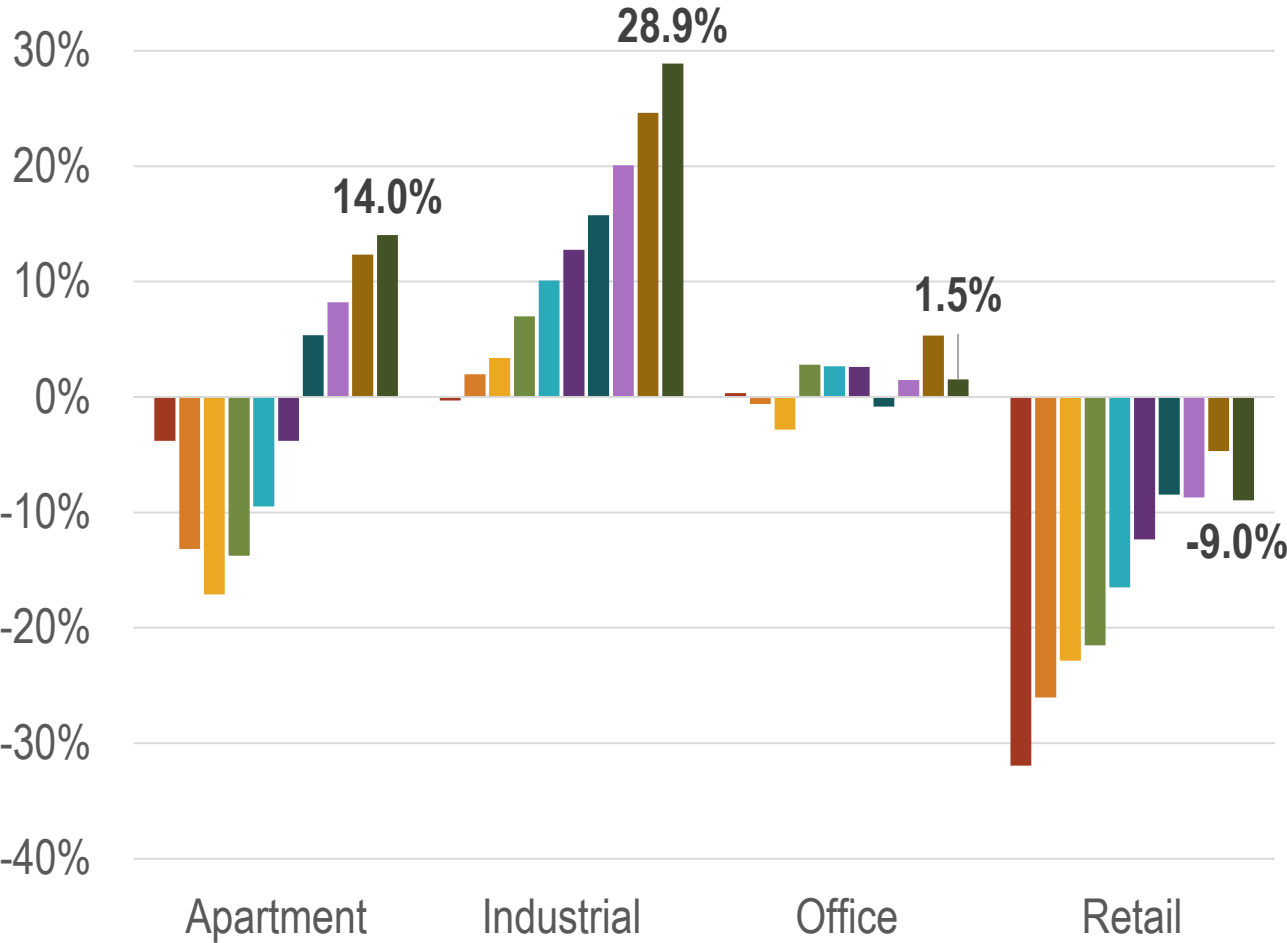
Source: CoStar



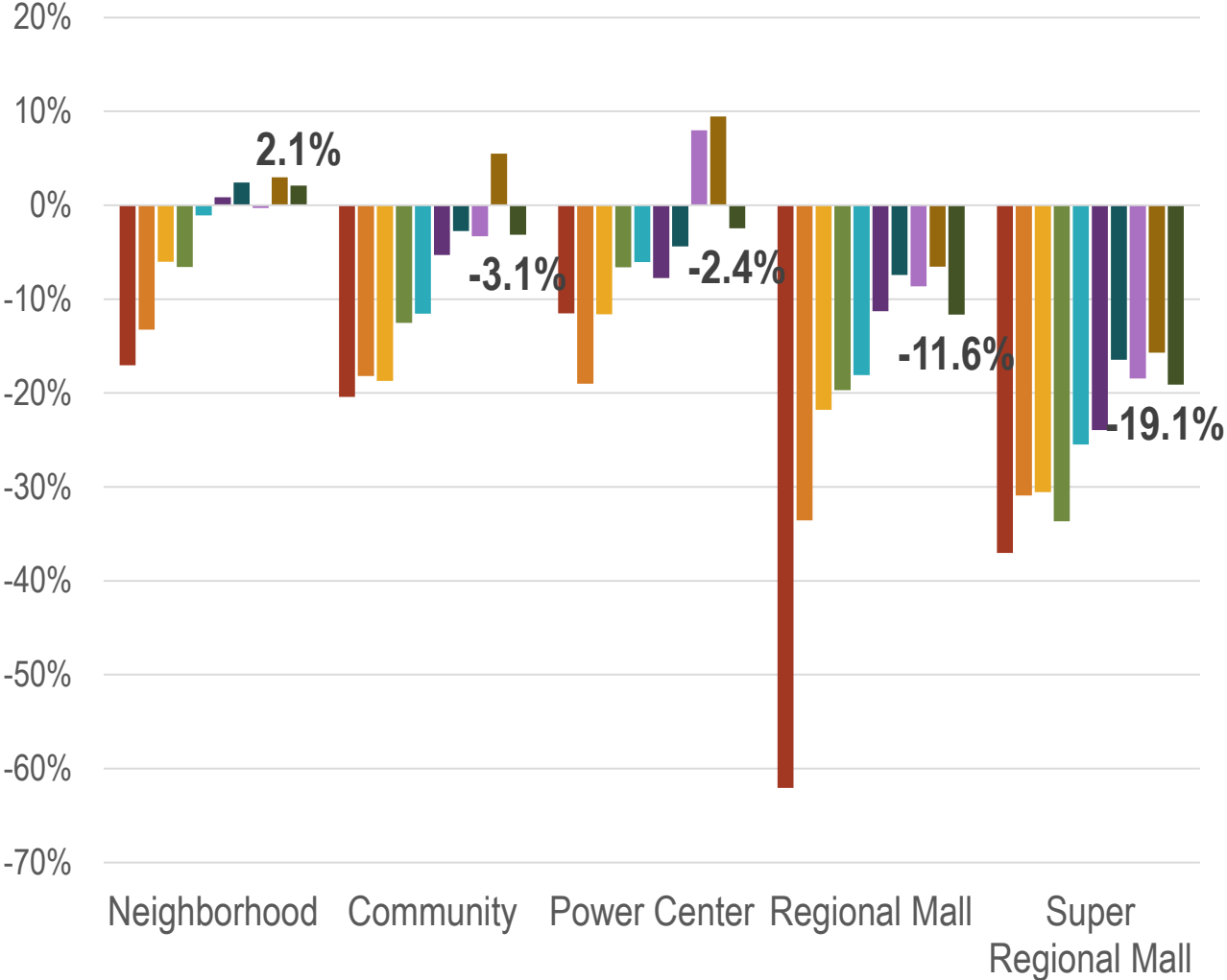
INDUSTRIAL AND APARTMENT INCOME UP SINCE COVID ONSET

Neighborhood Retail Outperforming Rest of Sector

Cumulative NOI Change Since COVID Onset



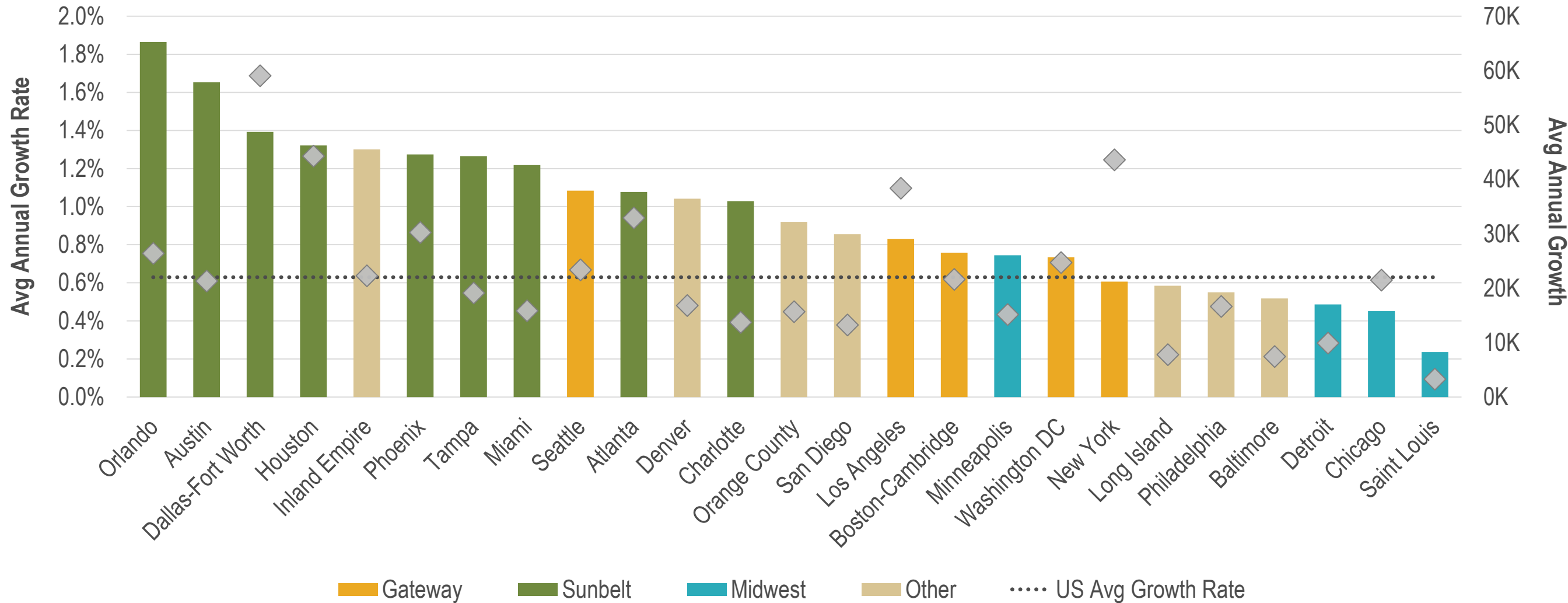
Cumulative NOI Change Since COVID Onset



STRONGEST EMPLOYMENT GROWTH RATES EXPECTED IN SUNBELT MARKETS

Gateway Market Employment Growth Projected Closer to US Average

Average Annual Non-Farm Employment Growth, 2022-2027



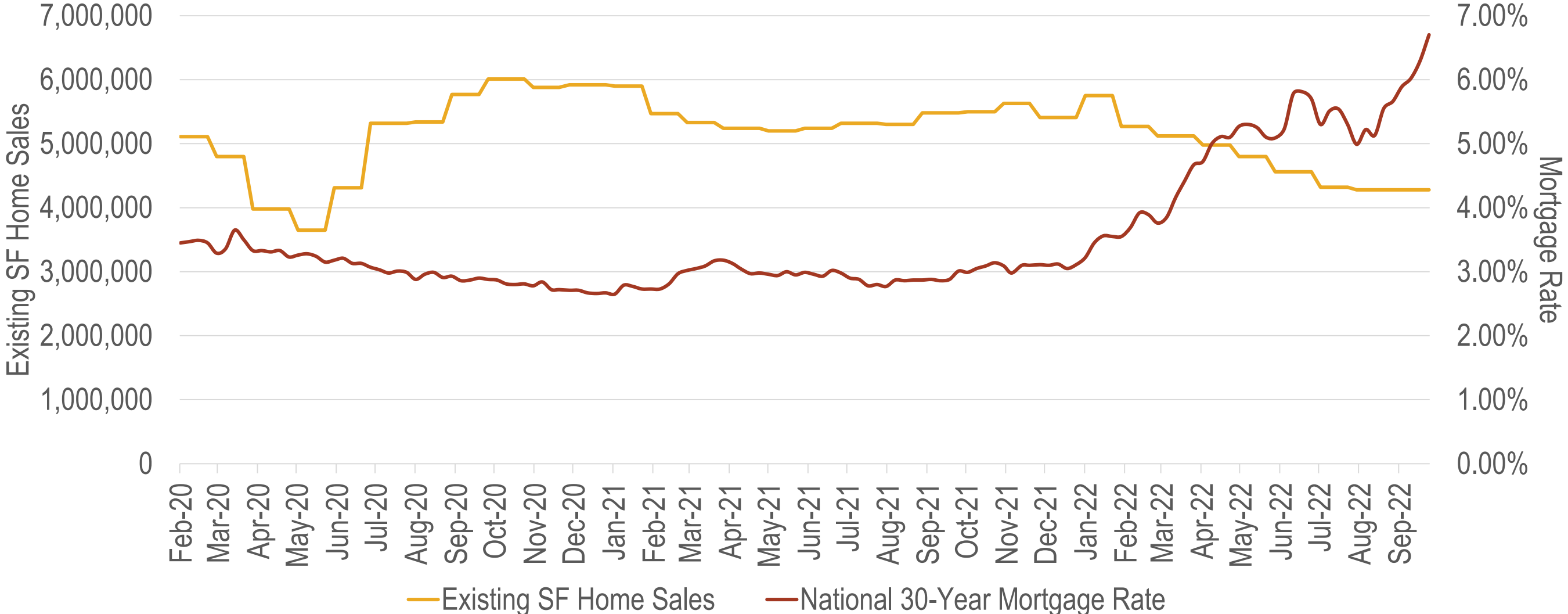
Note: The chart above includes the 25 largest markets by total non-agricultural employment as of Q3 2022.

Source: Moody's

RESIDENTIAL REAL ESTATE UPDATE

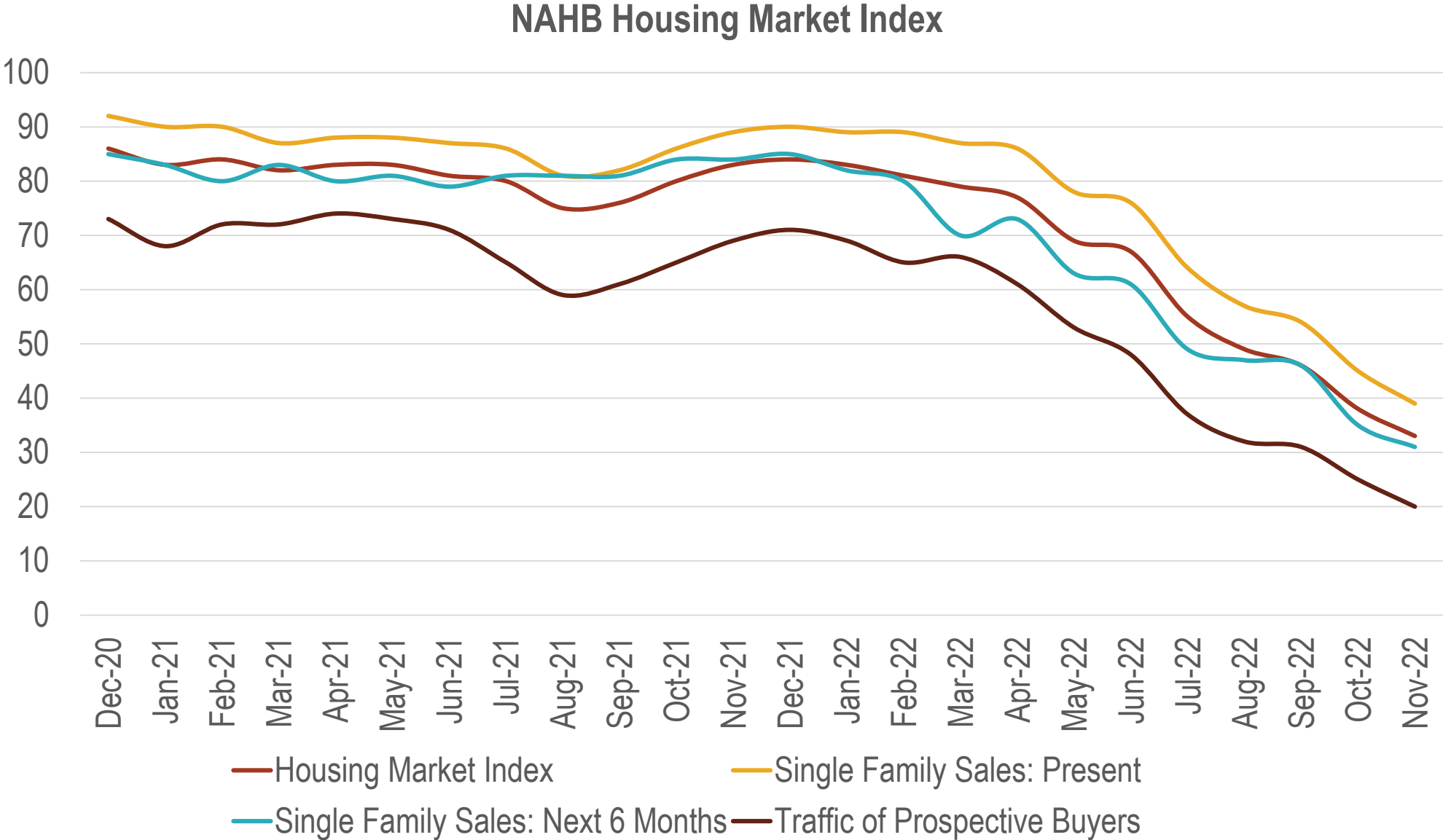
RISING INTEREST RATES CORRELATED TO FALLING HOME SALES

Existing SF Home Sales and National 30-Year Mortgage Rate



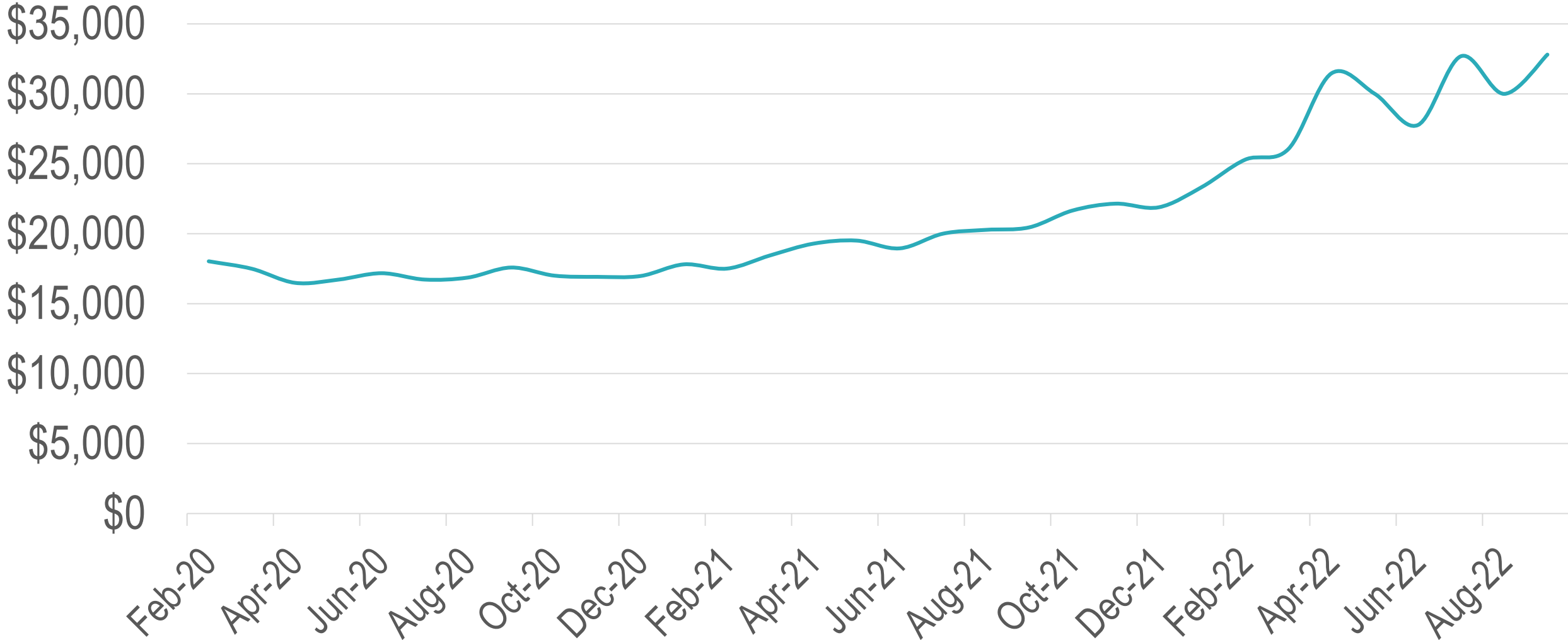
NEW HOME MARKET: HOMEBUILDER SENTIMENT TRENDING DOWN

► Builder sentiment relative to single family sales (current and next 6 months) and prospective buyer traffic has steadily declined since April 2022



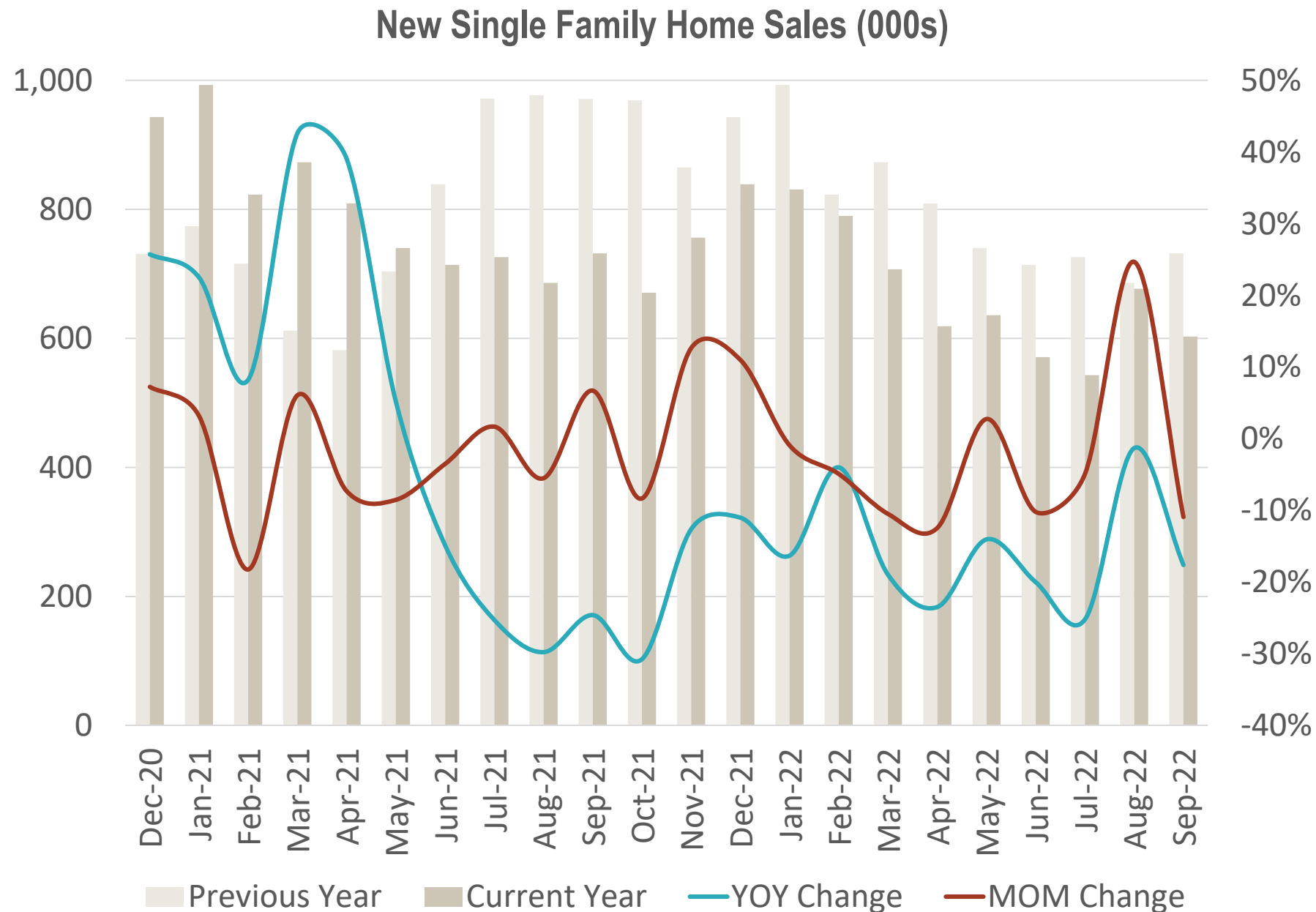
86% INCREASE SEPT 20 - SEPT 22, TO SERVICE AVERAGE NEW HOME MORTGAGE

Annual Cost of Monthly Mortgage Payments to Purchase the Average New Home at the then Current Interest Rate with 13% Down Payment



COMPARING YEAR EARLIER NEW HOME SALES Y-0-Y AND M-O-M

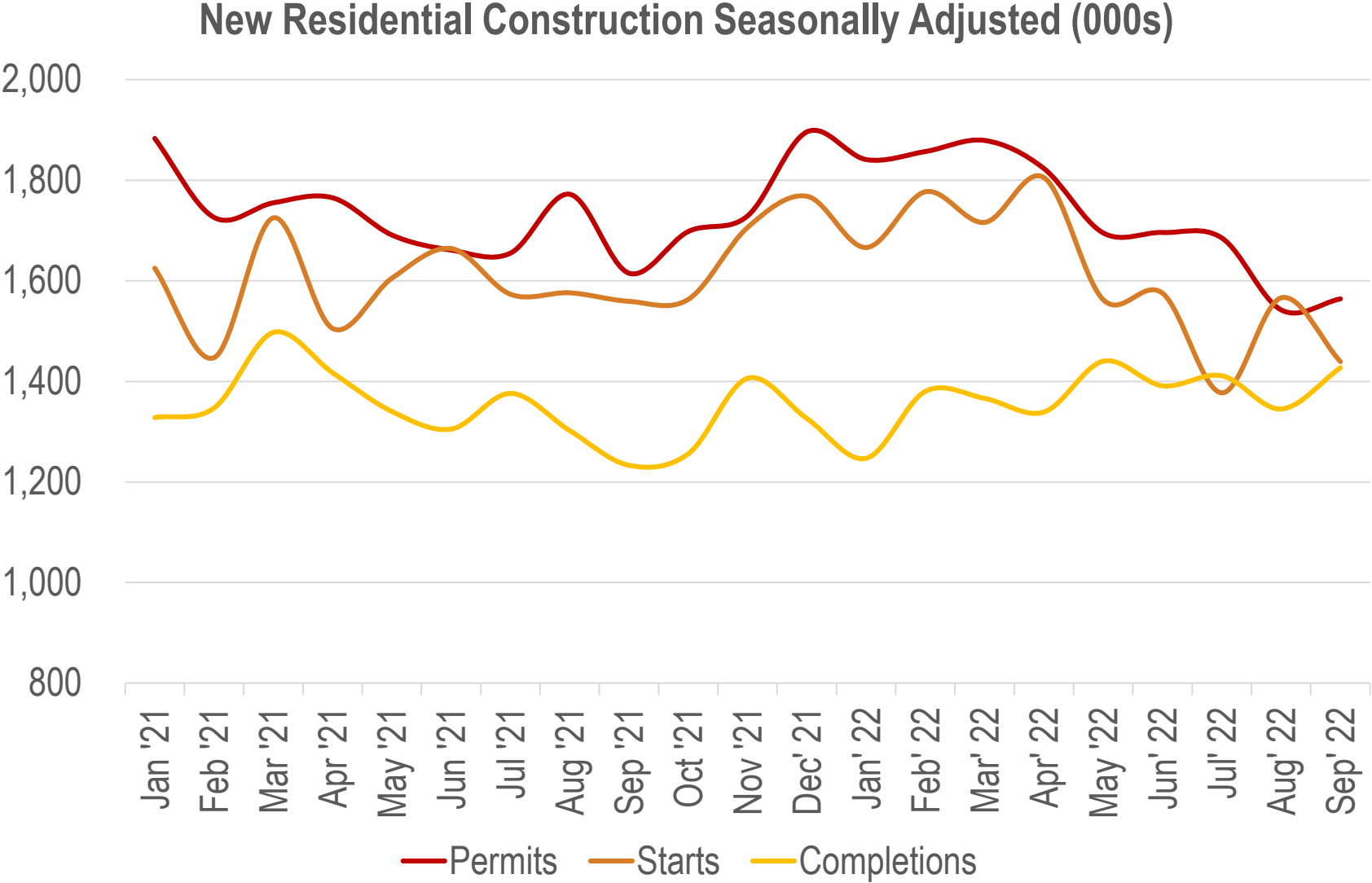
- ▶ 2022 sales down from 2021, September sales down -10.9% month-over-month after a jump in sales in August
- ▶ September's seasonally adjusted annual rate of 603,000 is -17.6% lower than September 2021
- ▶ 9.2 months of supply of new homes at the current pace



PERMITS AND STARTS CONTINUE TO TREND DOWNWARDS

Permits a Leading Indicator

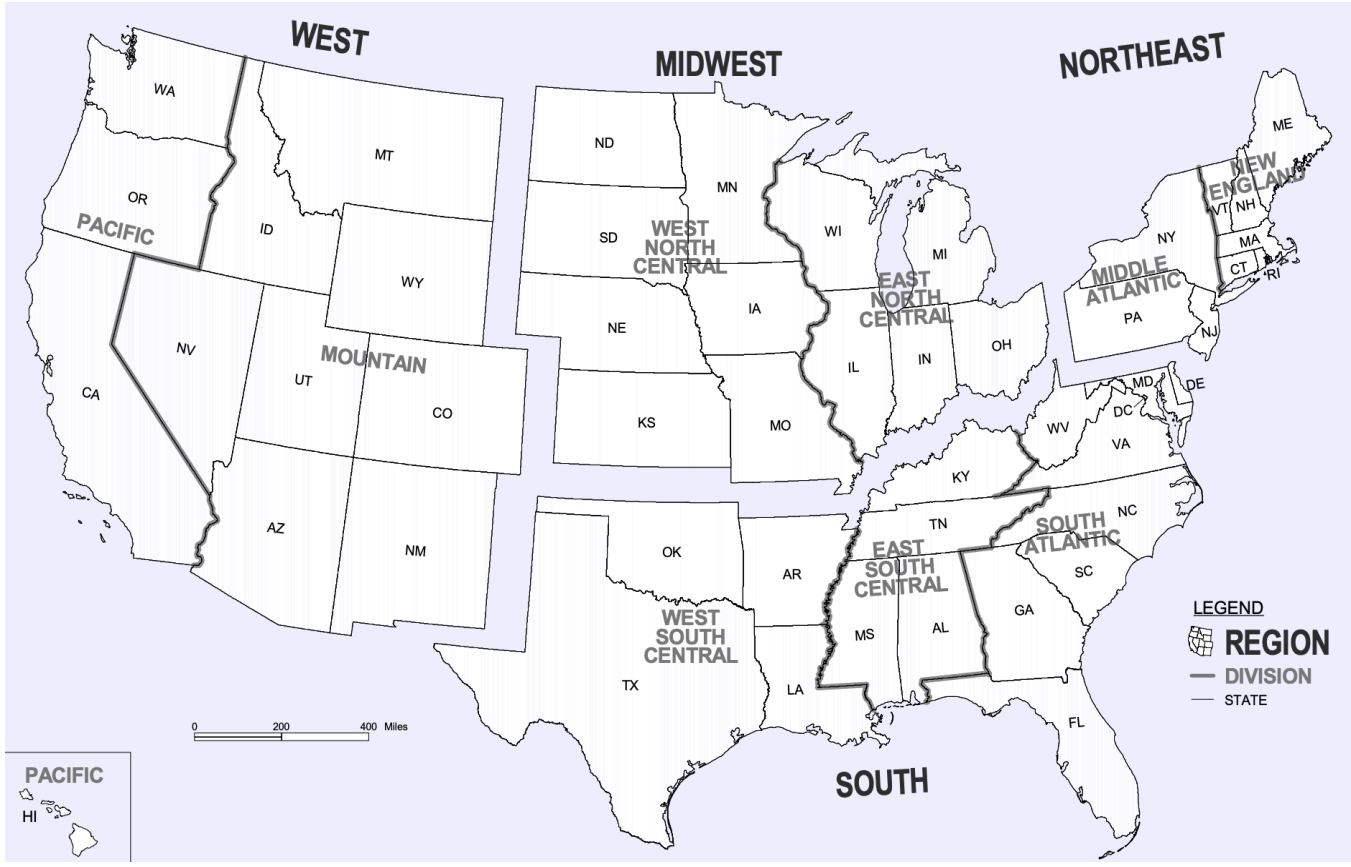
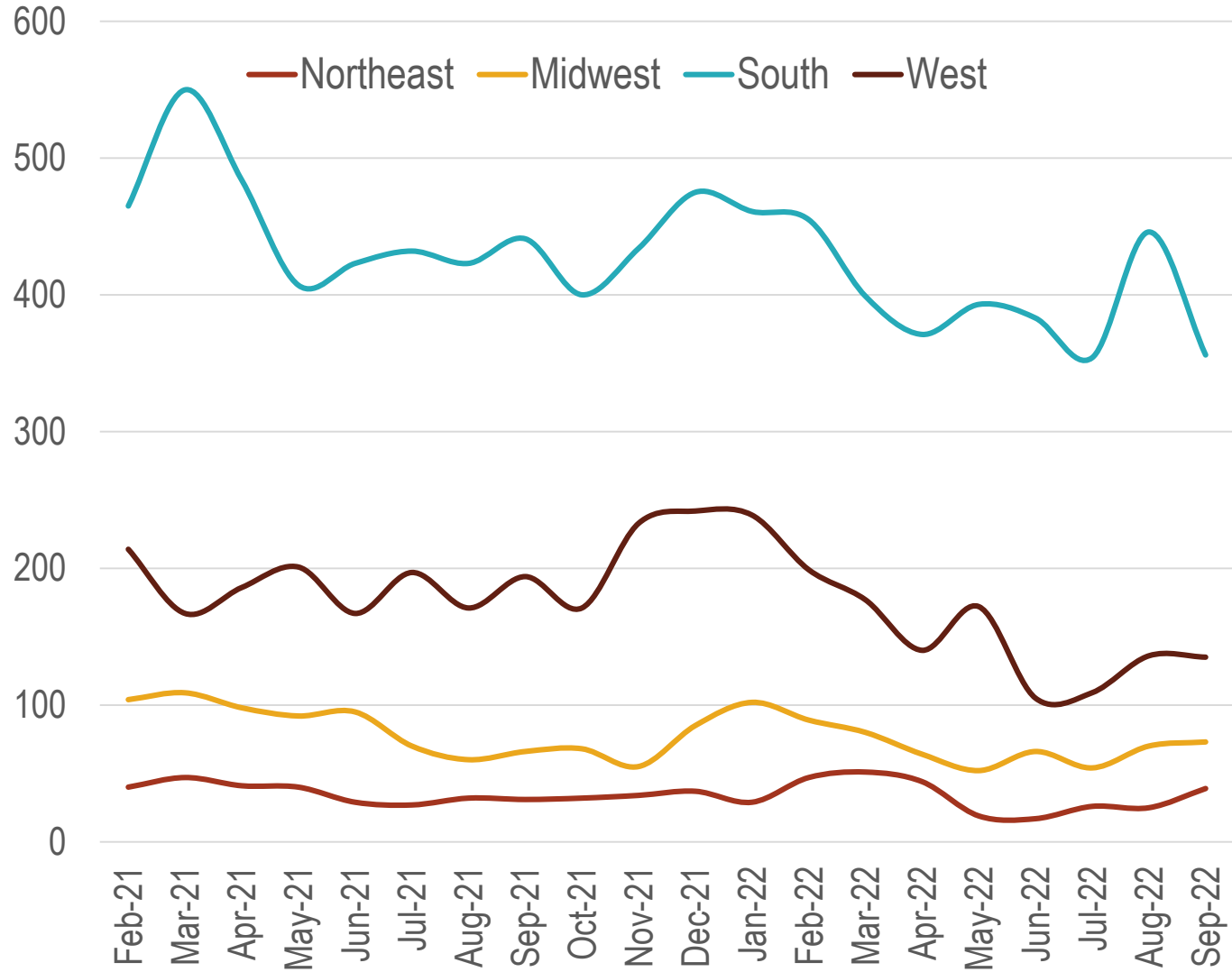
- ▶ Since April, there has been a decrease in both permits and starts
- ▶ Housing starts decreased **8.1%** from August 2022, and are down **7.7%** compared to September 2021



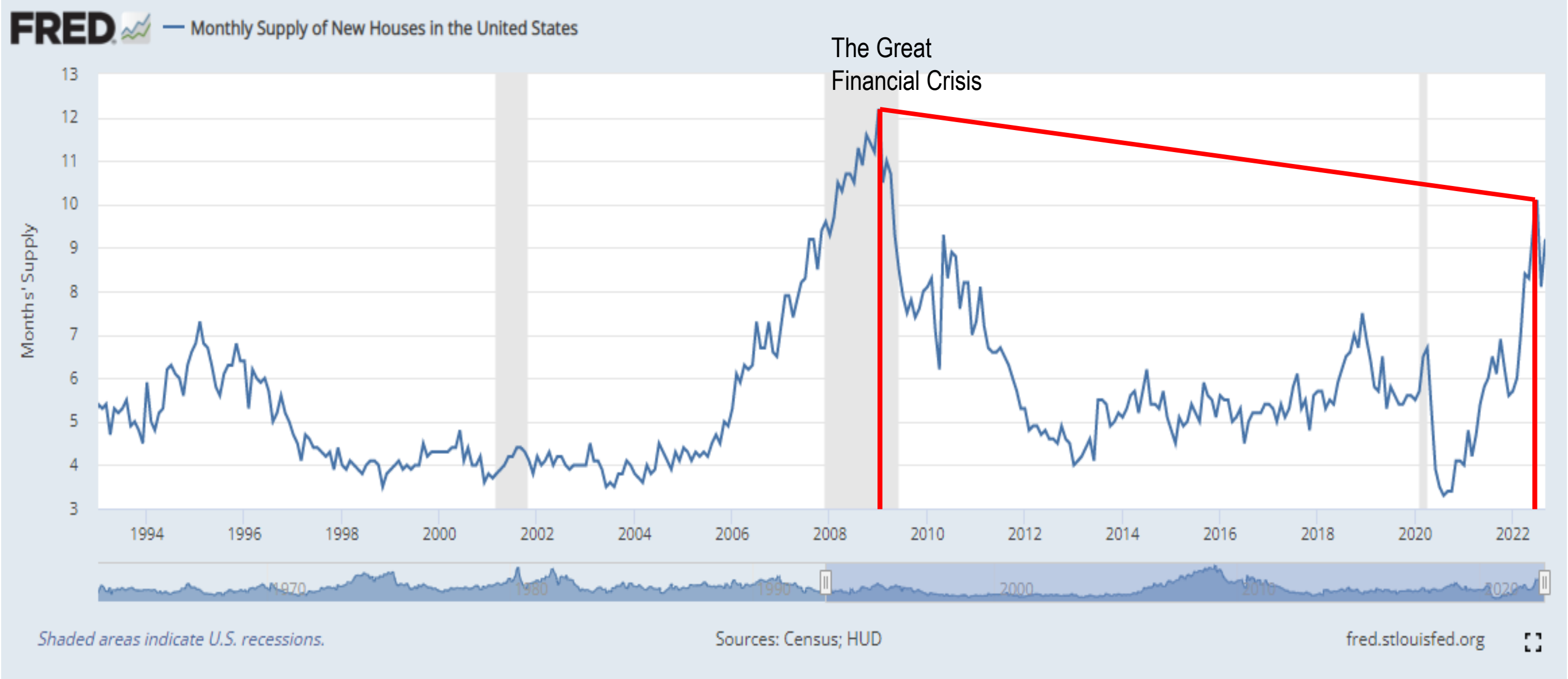
NEW HOME SALES DOWN RELATIVE TO THIS TIME IN 2021

Biggest Declines In The West

New Home Sales by Region (000s)



MONTHLY SUPPLY OF NEW HOUSES - INVENTORY RISING



DECLINING EXISTING HOME SALES - INCREASING INVENTORY

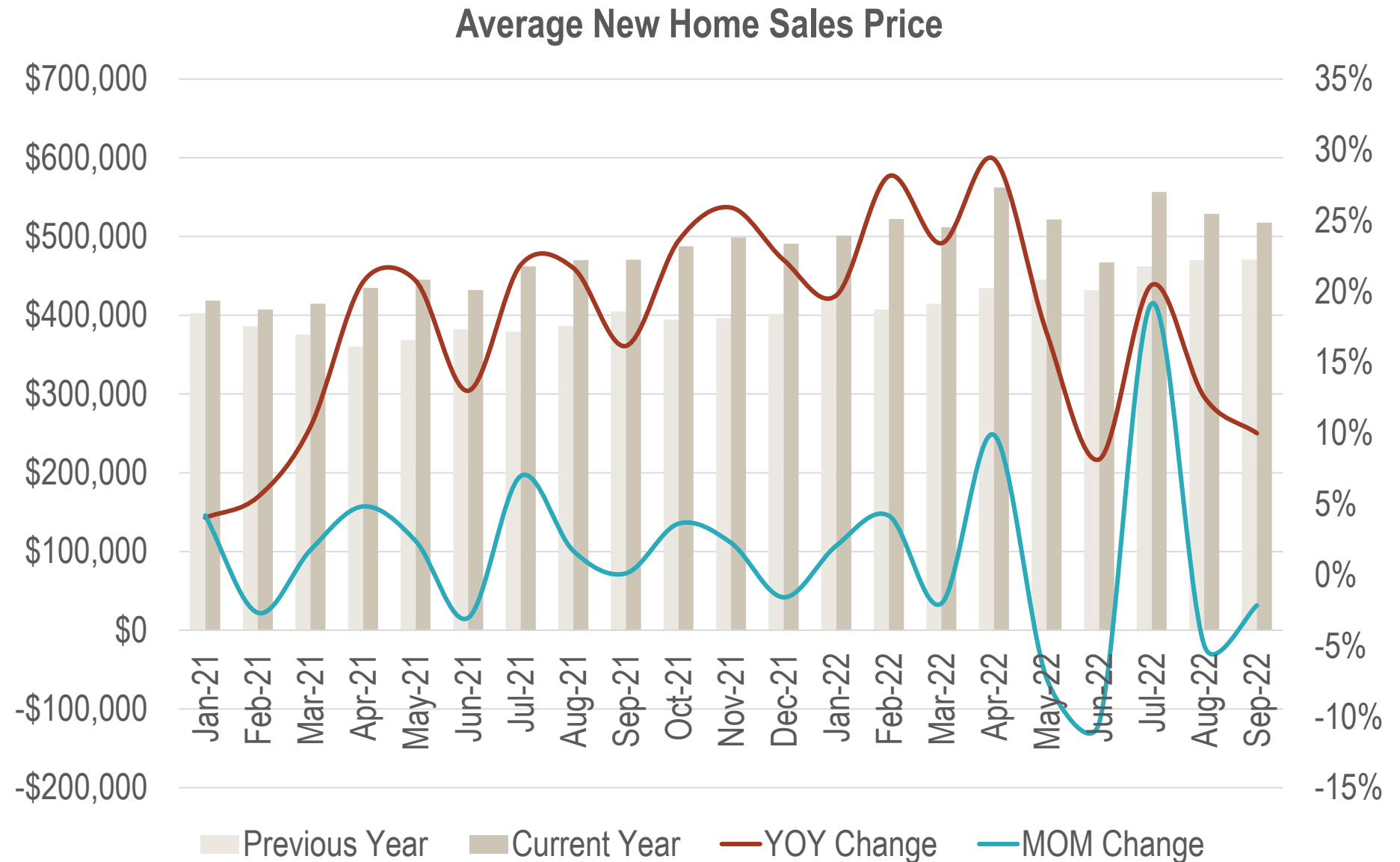
► 3.1 months of inventory available in September 2022 – up from a low of 1.8 months in January

» This is the highest total since July 2020

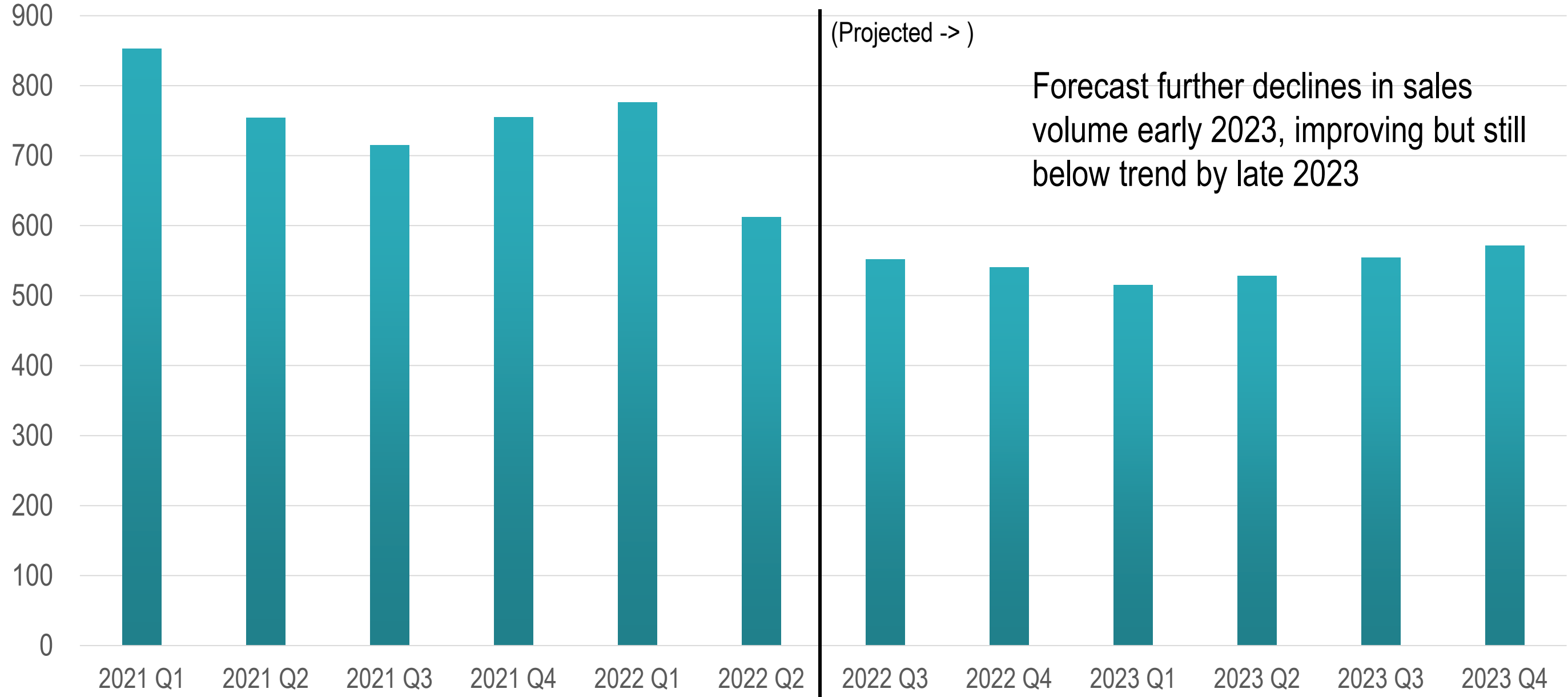


AVERAGE NEW HOME PRICES DECLINE M-O-M BUT Y-O-Y ABOVE 2021

- ▶ Average new home price September 2022 - \$517,800 - 10% higher than September 2021
- ▶ September 2022 are below April 2022, by 7.9%
- ▶ The average sales price has started to moderate since peaking in April, and nearly matching that high in July



SINGLE-FAMILY HOME SALES BY QUARTER – ACTUAL AND FORECAST



BFR MARKET

► Rise of BFR:

- » Demographic shifts
- » Millennial's family years
- » COVID/remote work
- » Decline in for-sale affordability
- » Desire for low maintenance living

- While only 40% of respondents in RCLCO's 2022 renter survey currently live in an SFD or TH, 51% say their ideal rental unit type is SFD and 21% prefer TH/duplex – 72% overall



THANK YOU! – QUESTIONS?



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