OUTLOOK FOR THE REAL ESTATE MARKET & INTERACTIVE HOUSING TOOLS

RCLCO Monthly Webinar

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AGENDA

► **Economic Update - Charlie**

► **Housing Progress Index - Dana**
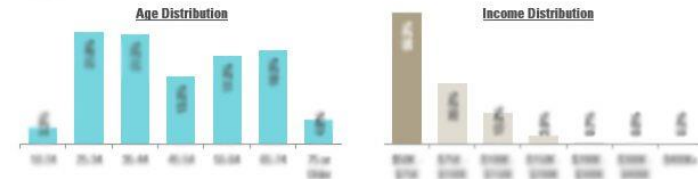
► **Neighborhood Atlas - Jake**

► **Q&A**

2023 RENTAL CONSUMER PREFERENCES REPORT

2023 RENTAL CONSUMER PREFERENCES REPORT

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2023 RENTAL CONSUMER PREFERENCES REPORT

Key Takeaways

1. **40%** of respondents live in single-family, yet **72%** overall say single-family is their preference, would pay $260-$300 more per month to live in professionally managed SF community

2. **Closets and kitchens** have the most impact in terms of a multifamily renter's willingness to pay more

3. **Secure package receiving #1** ranked amenity by singles and couples **under 55**

Ideal Rental Housing Configuration

- Multifamily apartment: 5 or more units in the building — 19%
- Small Multifamily Apartment: Less than 5 units in the building — 9%
- Single family attached (Townhome/Duplex) — 21%
- Single-family detached — 51%
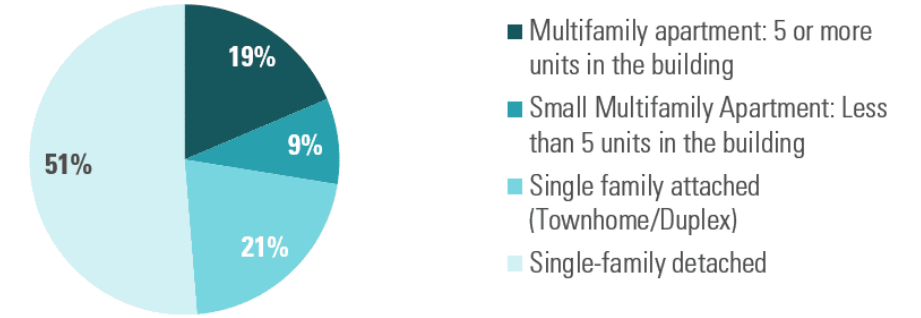
Renters who prefer Multifamily - Unit Feature/Finish Importance

Feature	Not important, would forgo for lower rent	Moderately important, might pay more rent	Very important, would pay more rent	Wtd. Score
New Modern Kitchen Appliances	12.3%	50.5%	37.3%	3.13
Walk-In Closets	18.9%	48.6%	32.4%	2.95
Oversized Kitchen Pantry	34.2%	47.9%	17.8%	2.49
Granite / Quartz Counters	39.6%	42.2%	18.2%	2.39
	45.0%	38.7%	16.2%	2.26
	45.8%	37.1%	17.1%	2.26
	50.6%	31.9%	17.5%	2.16
	51.0%	31.0%	18.0%	2.16
	58.7%	30.6%	10.6%	1.93

Please see full report for complete ranking details

Legend:
- Not important, would forgo for lower rent
- Moderately important, might pay more rent
- Very important, would pay more rent
- Wtd. Score

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2023 RENTAL CONSUMER PREFERENCES REPORT
Key Takeaways

4. **Developers targeting family market** – forgo development dollars on business center, dog wash, and media/game room, ranked lowest

5. **62% of 55+ renters** prefer either an age-restricted or an age-targeted community of many mature renters

Families / Multigenerational Households Amenity Preferences

Please see full report for complete ranking details

Media-Game Room
Dog Wash
Business Center / Conference Rooms / Co-working Space

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%
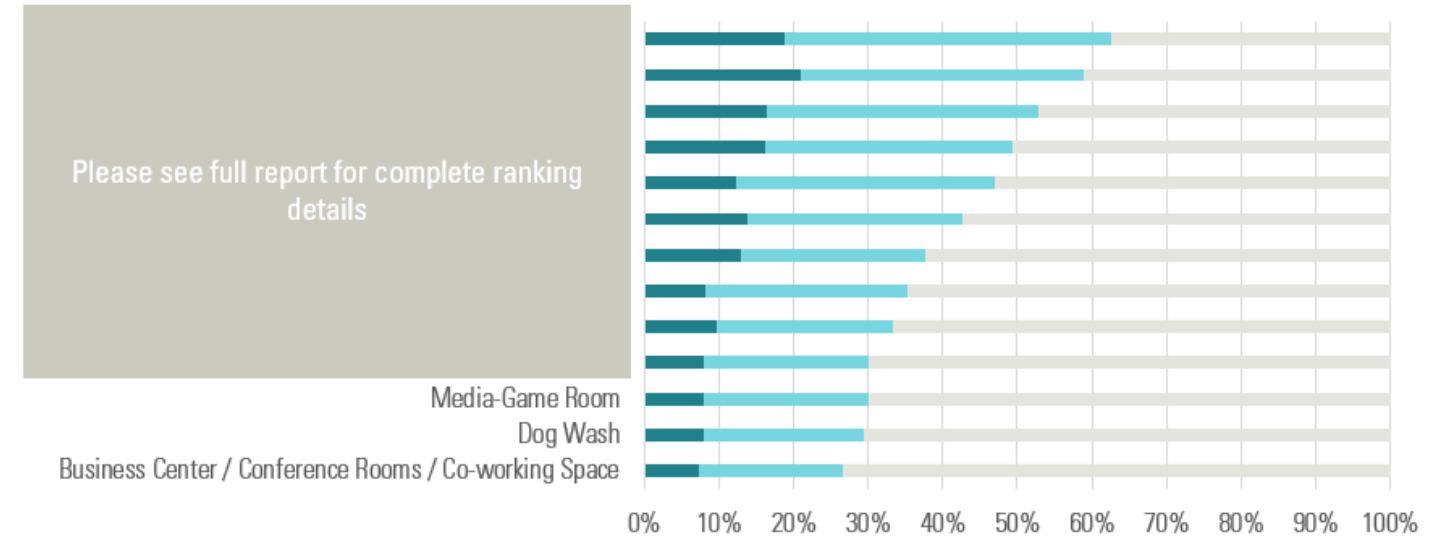
**Mix of Households at Ideal Community
(Respondents Age 55+)***

A Mix of Ages/Multigenerational 37.7%

Age-Restricted Community (55+) 24.4%

Mostly Mature Households (Age-Targeted) 37.9%
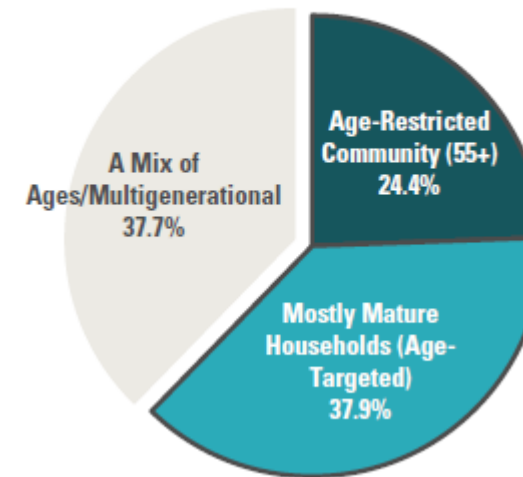
ECONOMIC UPDATE

HEADLINE INFLATION CONTINUED TO COOL, POSTING LOWEST ANNUAL RATE SINCE SEP. 2021

CPI All Items All Urban Consumers Still High, Up 6.0% YoY, Core CPI Excluding Food and Energy Up 5.5%

Trailing 12-Month CPI Inflation

Data are as of February 2023.
Note: Figures represent seasonally adjusted CPI.
Source: U.S. Bureau of Labor Statistics; Federal Reserve Bank of St. Louis
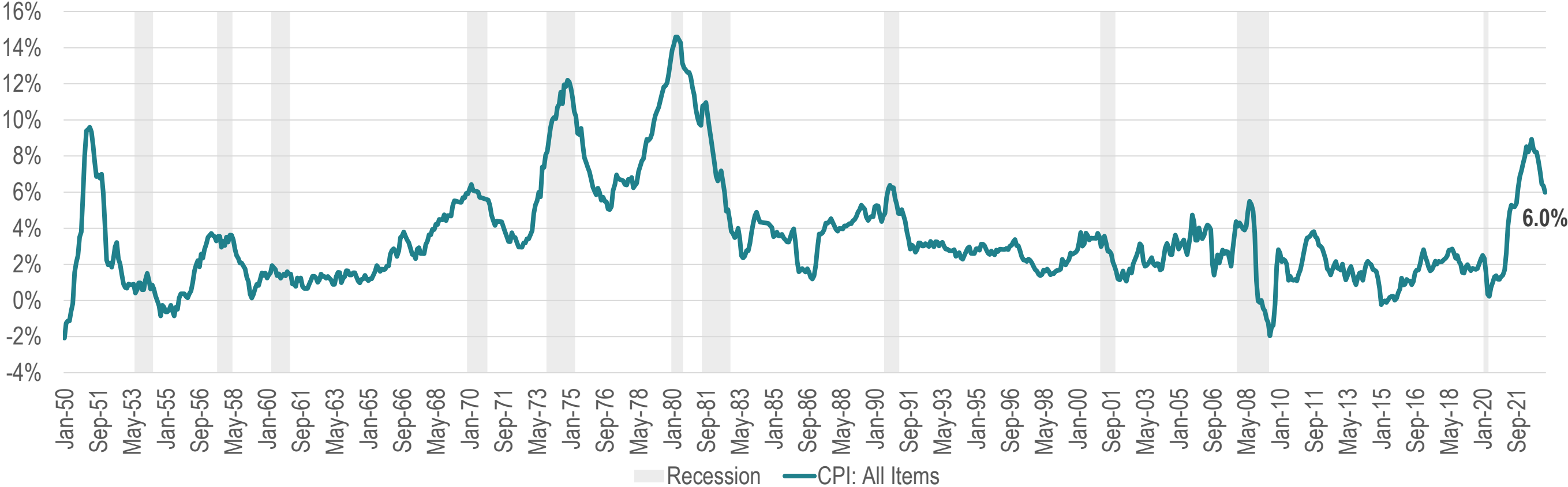
SHELTER COSTS (INCLUDED IN SERVICES) DROVE 70% OF THE ALL ITEMS INCREASE IN FEBRUARY

Persistent Services Inflation May Induce the Fed to Keep Rates Higher for Longer

Annual CPI Inflation

Legend: Food | Energy | Core Goods | Core Services | Total CPI

Values above bars: 1.5% (2013), 0.7% (2014), 0.6% (2015), 2.1% (2016), 2.1% (2017), 2.0% (2018), 2.3% (2019), 1.3% (2020), 7.2% (2021), 6.4% (2022), 6.0% (Feb. 2023)
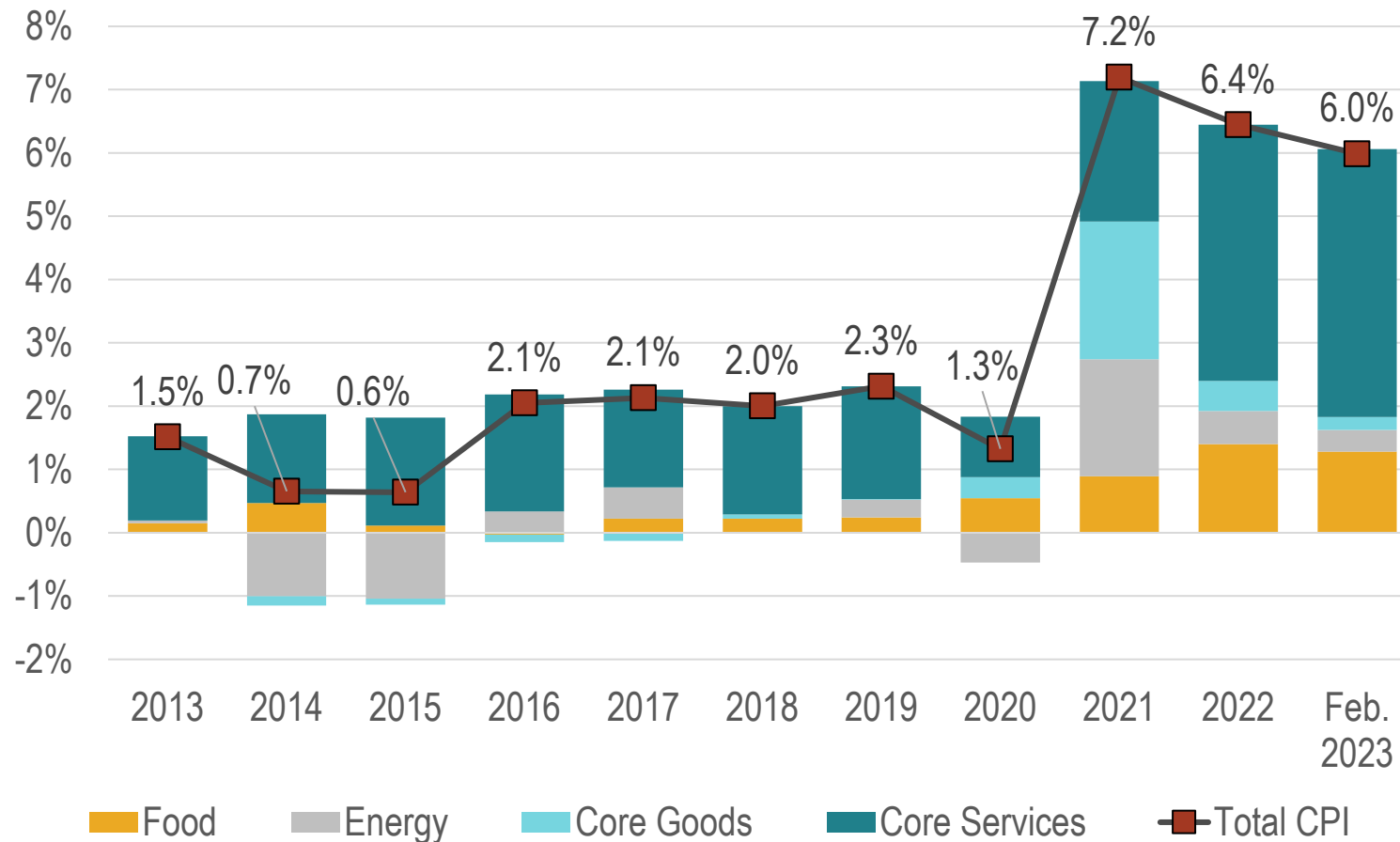
February 2023 Inflation	Monthly	Trailing 12-Month
Apparel	0.8%	3.3%
Education & Communication	0.1%	1.0%
Food & Beverages	0.3%	9.2%
Other Goods & Services	0.9%	6.1%
Housing	0.5%	8.2%
Shelter (main housing component)	0.8%	8.1%
Medical Care	-0.5%	2.3%
Recreation	0.9%	5.0%
Transportation	0.2%	2.4%
Food	0.4%	9.5%
Energy	-0.6%	5.0%
Core Goods	0.0%	1.0%
Core Services	0.6%	7.3%
Total Core	**0.5%**	**5.5%**
All Items	**0.4%**	**6.0%**

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FED RAISES FEDERAL-FUNDS RATE TARGET 25BPS

9th Consecutive Increase to Fight Inflation, But Signaled Banking-system Turmoil Might End Campaign Sooner

Federal-funds rate target

March: +0.25 pct. pt.
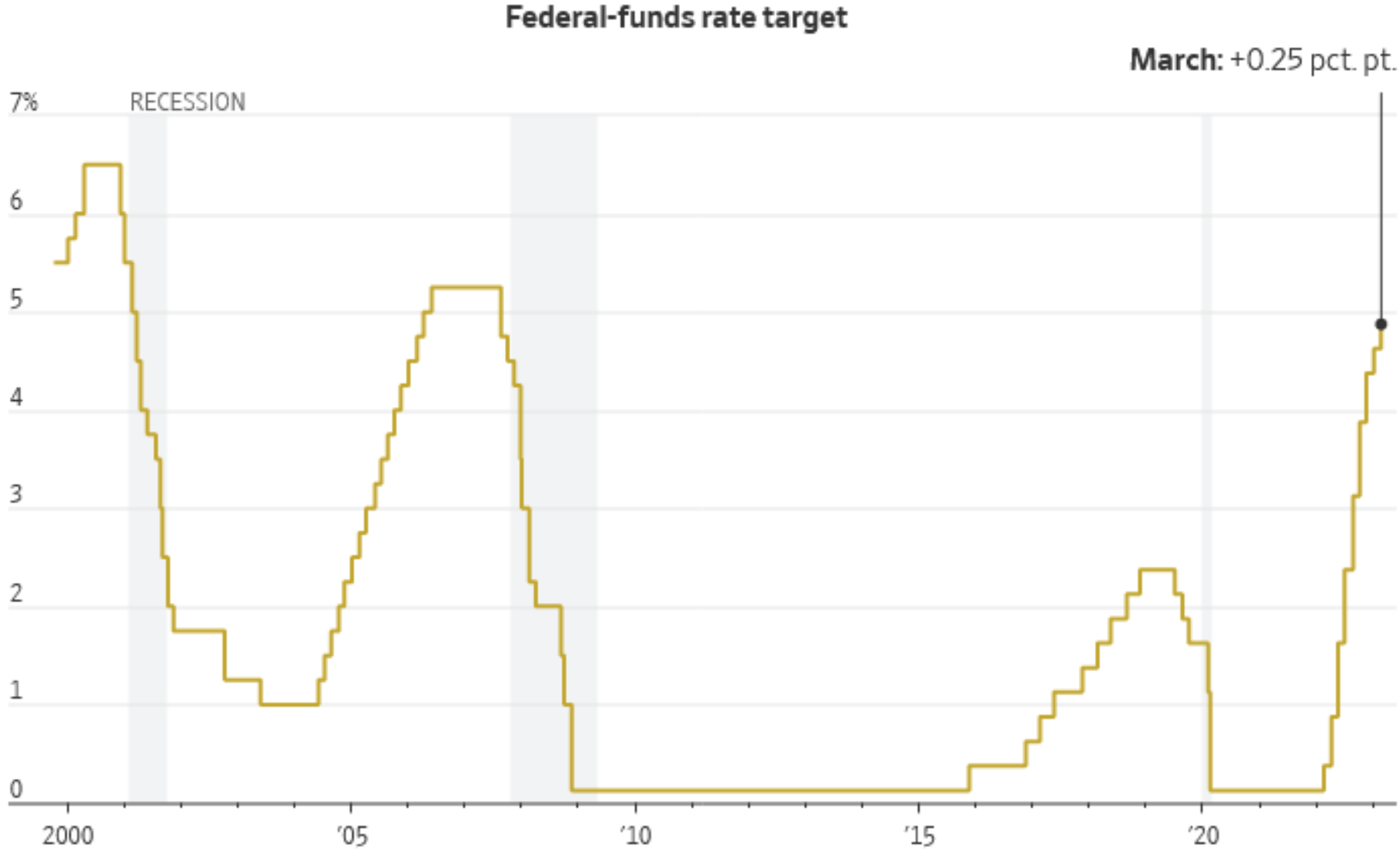
Source: Federal Reserve

BOND MARKET SEES BIGGEST DECLINE ON RECORD IN 2022
As Interest Rates Climbed, Interest In Bonds Tied To Older, Lower Rates Declined In Value

S&P U.S. Treasury Bond Index

433.78

Source: S&P Dow Jones Indices

THIS WAS BAD NEWS FOR SVB...

Fixed-Rate Securities Made Up Nearly 60% Of SVB's Assets at the End of 2022

Regional Bank Rollercoaster

Stock price change of U.S. regional banks since March 1, 2023

Legend: — Zions — Western Alliance — PacWest — First Republic

- Zions: -40.2%
- Western Alliance: -61.1%
- PacWest: -63.3%
- First Republic: -90.1%

Silicon Valley Bank collapses

March (01, 06, 10, 15, 20)
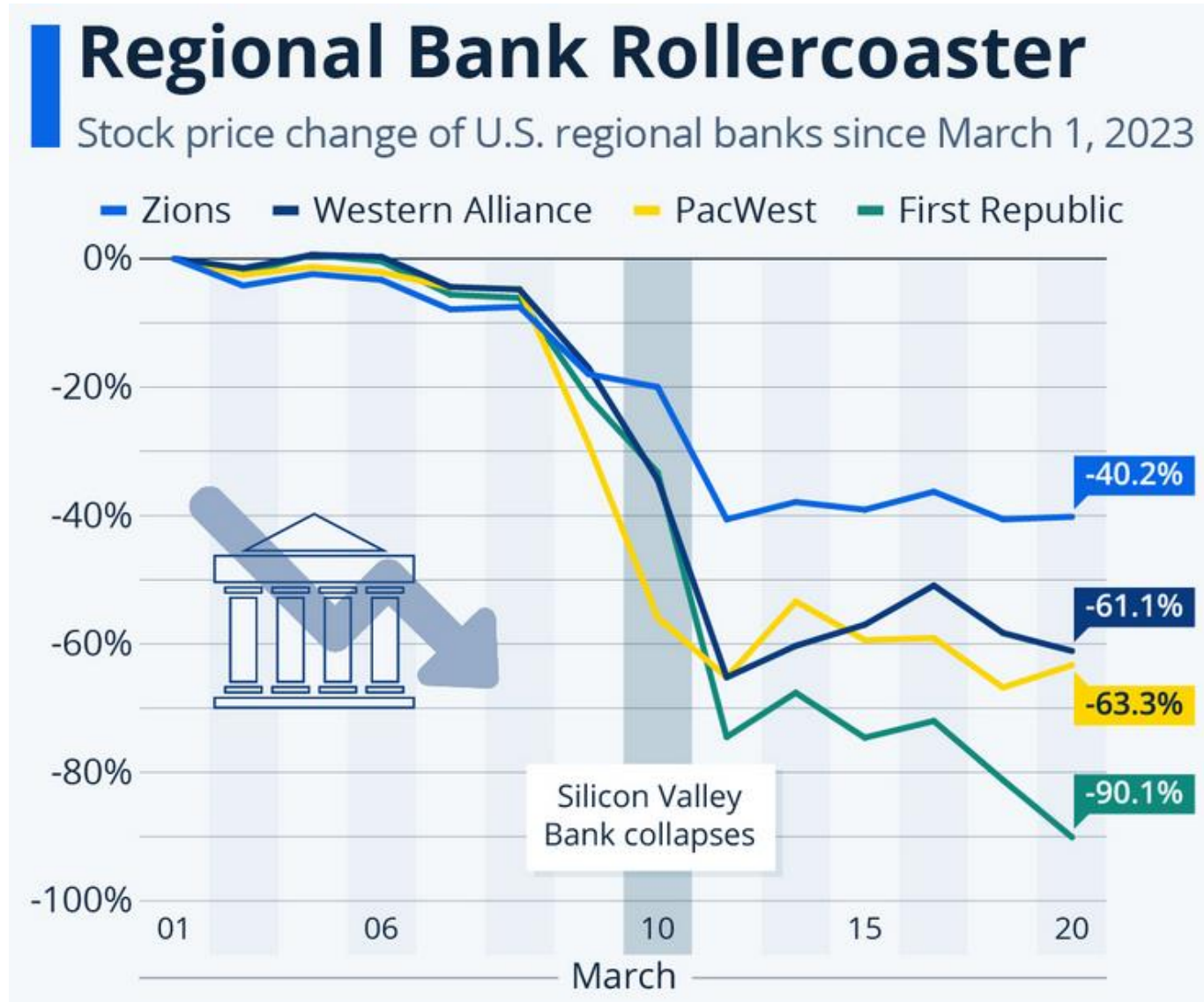
Primary Cause = Uninsured Deposits

► Signature Bank = Crypto

► First Republic = Unrealized Bond Losses

► Credit Suisse = Missteps & Compliance

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COUNTLESS OTHER BANKS HAVE BILLIONS IN DEVALUED TREASURIES
Fed Stepped In Allowing Banks To Redeem Devalued Bonds For Original Cash Value

Unrealized gains (or losses) on investment securities for U.S. banks

Recession

Available-for-Sale Securities

Held-to-Maturity Securities

$200B

−$200B

−$400B

−$600B

2019   2020   2021   2022
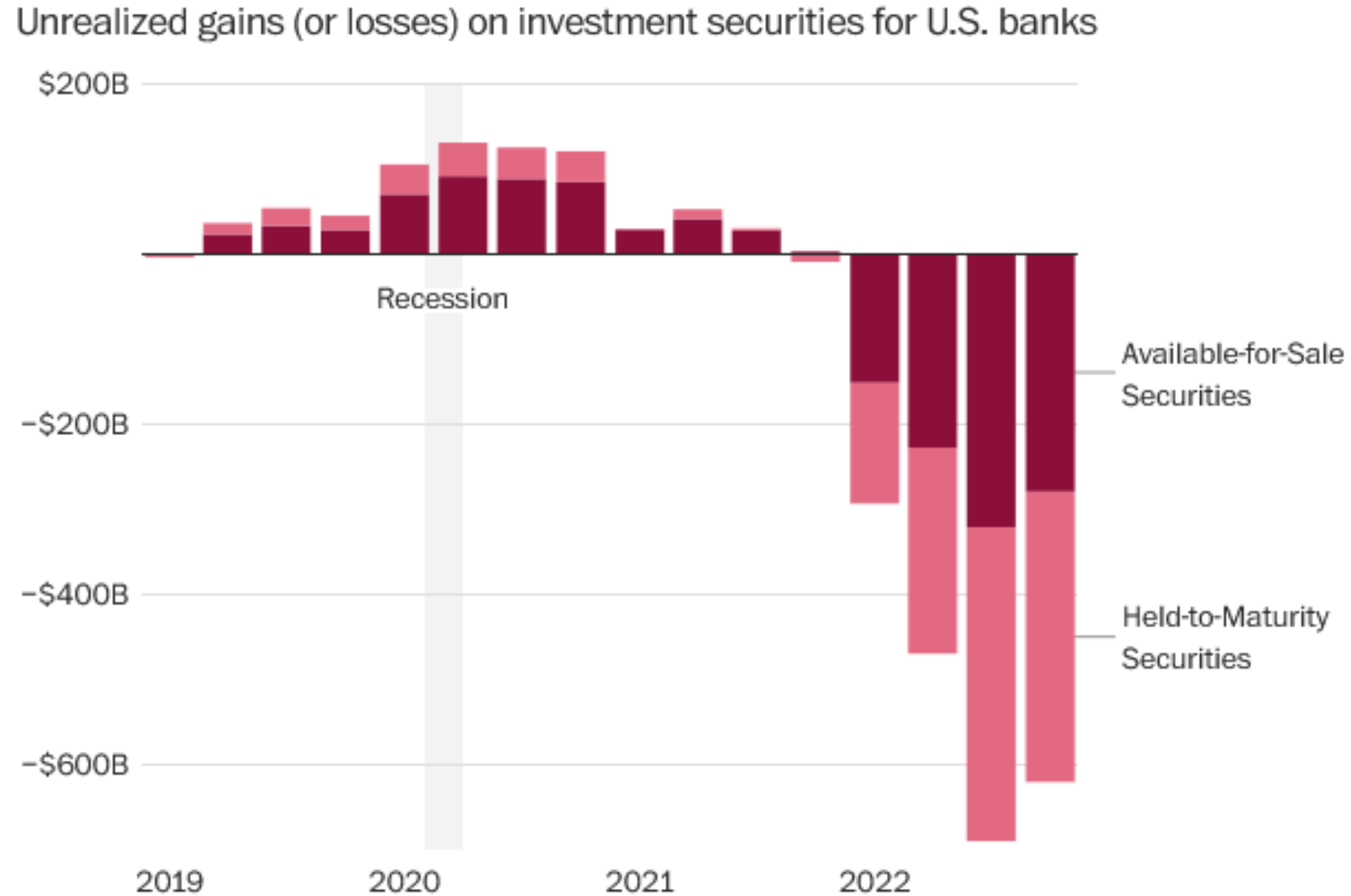
Source: Federal Deposit Insurance Corporation

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IS THIS THE END OF THE BEGINNING, OR THE BEGINNING OF THE END?
6 Months Elapsed Between the Collapse of Bear Stearns and that of Lehman Brothers in 2008

March 16, 2008

July 11, 2008

September 15, 2008

JAN   FEB   MAR   APR   MAY   JUN   JUL   AUG   SEP   NOV   DEC

Bear Stearns Forced Sale to J.P. Morgan Chase for $2/Share

IndyMac Bank Closed by Federal Reserve

Lehman Brothers Declares Bankrusptcy

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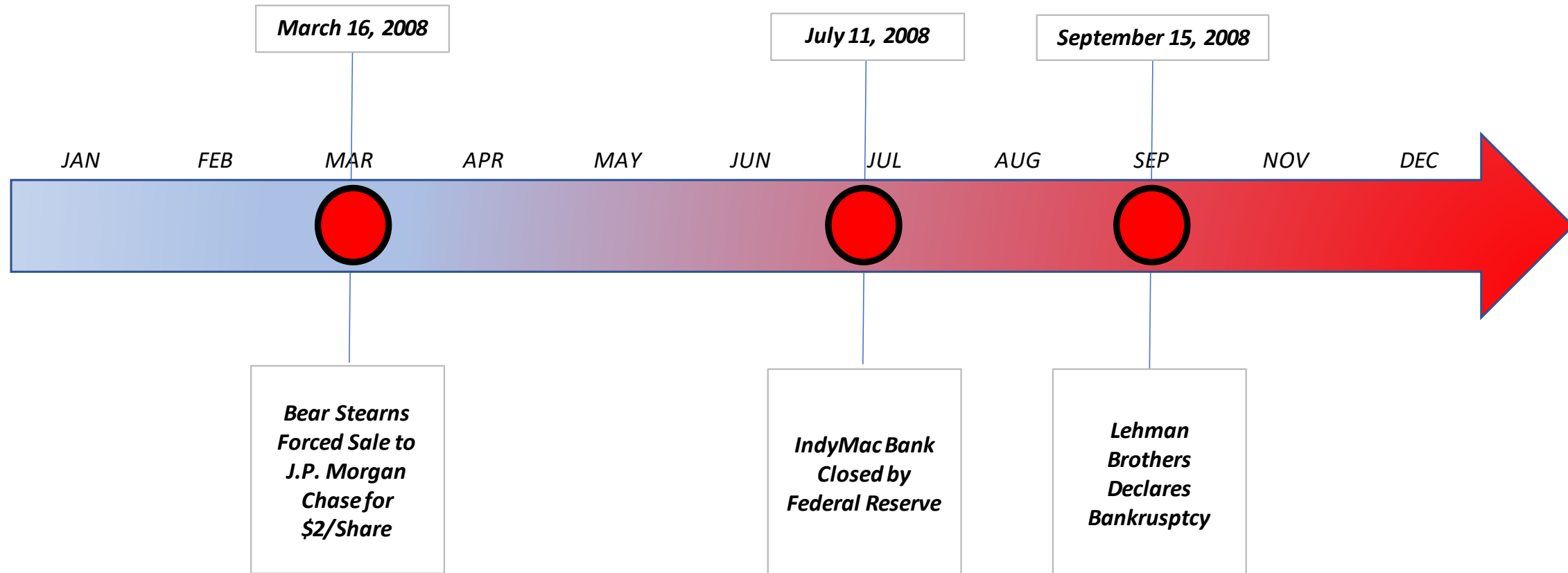
RCLCO POV

Mixed Signals Persist with Increased Downside Risk Pointing to U.S. Economy Headed For A Mild Recession

► February 2022, RCLCO Base Case (roughly **60%** probability) assumes:

» Volatility in the banking sector not seen since 2008 has injected increased risk of a downturn in the near-term

› U.S. GDP will to slow (**0%** to **2%**) in 2023 with a shallow recession highly likely

» Fed has responded with **25 bps** increase in interest rates

» As the economy slows, US real estate fundamentals will continue to soften, with moderately higher vacancy rates and slower rent growth over the next 3 years.

» Real estate capital markets to stay sluggish in 2023.

› Turmoil in U.S. bank funding will likely result in tighter lending standards, pushing commercial real estate values further down

› Refinancing risk is greatest for office and retail

RCLCO POV
Possible Downside Risk Events…

- ► **Bank Failure Contagion**
  - » Stress spills over from selected regional banks and bad actors to the wider banking sector

- ► **Geopolitical Risk**
  - » War in Ukraine spills over into a larger conflict further impacting U.S. economy

- ► **Strong Employment**
  - » Healthy labor market induces Fed to continue higher rate increases longer

- ► **Inflation**
  - » Persistent high inflation induces Fed to continue higher rate increases longer

- ► **Notably Absent from the List…**

INTERACTIVE TOOLS

HOUSING PROGRESS INDEX
Understanding key housing supply/demand shifts through a few key metrics

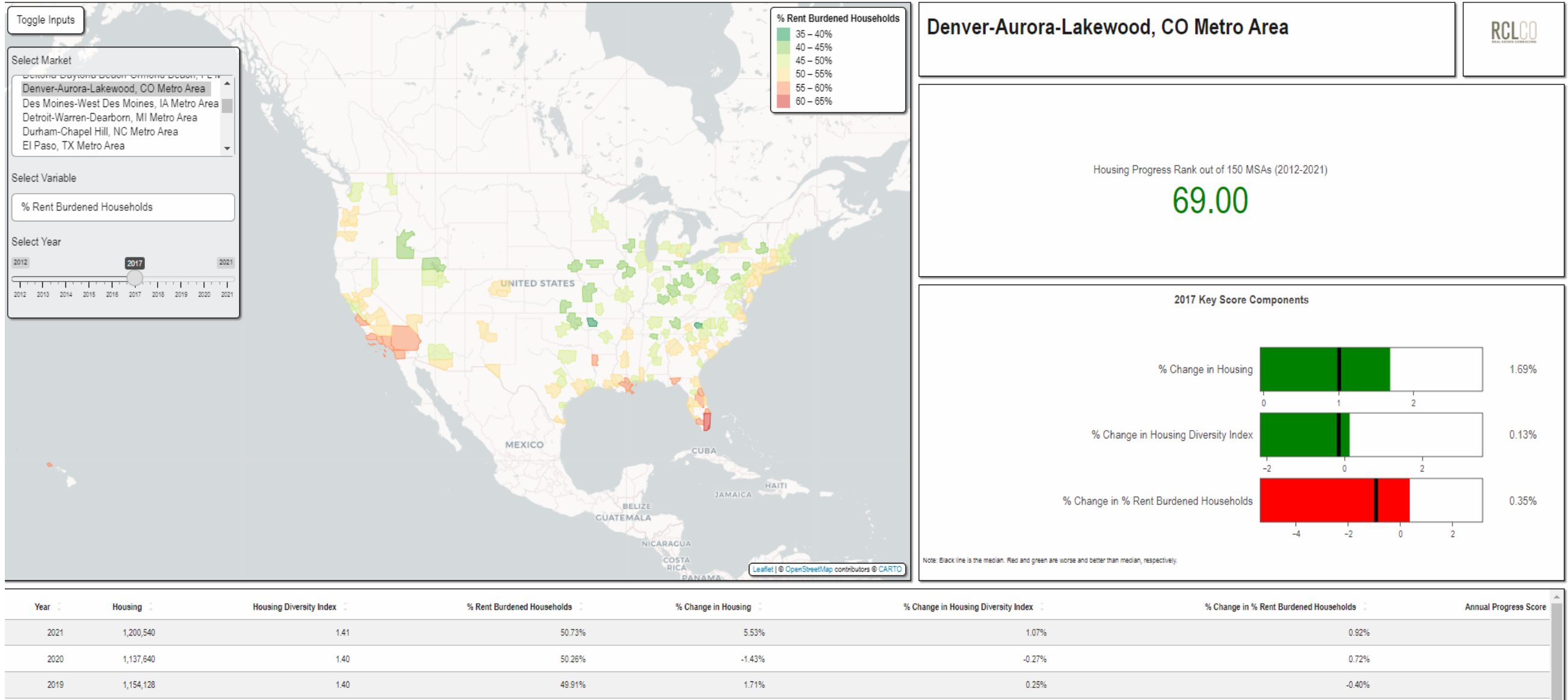**Key inputs:**

► % Increase in Housing Supply

► % Increase in Housing Diversity

► % Decrease in Rent-Burdened Households

Output is ranking of progress compared to other MSAs over the past decade

THE TOOL

Ability to toggle and view different variables each year

TOP AND BOTTOM PERFORMERS BY METRIC

Housing Increases	Diversity Increases	Rent Burden Decreases	TOTAL INDEX
Top Performers			
Charlotte-Concord-Gastonia, NC-SC Metro Area	Richmond, VA Metro Area	Columbus, OH Metro Area	Orlando-Kissimmee-Sanford, FL Metro Area
Austin-Round Rock-Georgetown, TX Metro Area	San Antonio-New Braunfels, TX Metro Area	Detroit-Warren-Dearborn, MI Metro Area	Raleigh-Cary, NC Metro Area
Raleigh-Cary, NC Metro Area	Orlando-Kissimmee-Sanford, FL Metro Area	Cincinnati, OH-KY-IN Metro Area	Columbus, OH Metro Area
Nashville-Davidson--Murfreesboro--Franklin, TN Metro Area	Raleigh-Cary, NC Metro Area	Cleveland-Elyria, OH Metro Area	Nashville-Davidson--Murfreesboro--Franklin, TN Metro Area
San Antonio-New Braunfels, TX Metro Area	Louisville/Jefferson County, KY-IN Metro Area	Chicago-Naperville-Elgin, IL-IN-WI Metro Area	Austin-Round Rock-Georgetown, TX Metro Area
Bottom Performers			
St. Louis, MO-IL Metro Area	Buffalo-Cheektowaga, NY Metro Area	Hartford-East Hartford-Middletown, CT Metro Area	San Diego-Chula Vista-Carlsbad, CA Metro Area
Pittsburgh, PA Metro Area	Phoenix-Mesa-Chandler, AZ Metro Area	Denver-Aurora-Lakewood, CO Metro Area	New York-Newark-Jersey City, NY-NJ-PA Metro Area
Cleveland-Elyria, OH Metro Area	Memphis, TN-MS-AR Metro Area	Houston-The Woodlands-Sugar Land, TX Metro Area	Memphis, TN-MS-AR Metro Area
Louisville/Jefferson County, KY-IN Metro Area	Indianapolis-Carmel-Anderson, IN Metro Area	San Antonio-New Braunfels, TX Metro Area	Buffalo-Cheektowaga, NY Metro Area
Detroit-Warren-Dearborn, MI Metro Area	Cincinnati, OH-KY-IN Metro Area	Las Vegas-Henderson-Paradise, NV Metro Area	Hartford-East Hartford-Middletown, CT Metro Area

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NEIGHBORHOOD ATLAS

OVERVIEW

History of the Neighborhood Atlas

► Created in 2016 with the ULI Terwilliger Center for Housing

► Revisited in 2018 to examine urban neighborhoods

Methodology Overview

► Automatically classifies 57,000 census tracts across 140 of the largest MSAs based on the type of neighborhood they are

   » 13 types, ranging from Economic Center to Rural

   » Key variables: Household density, employment density, housing inventory, home values, and apartment rents, among others
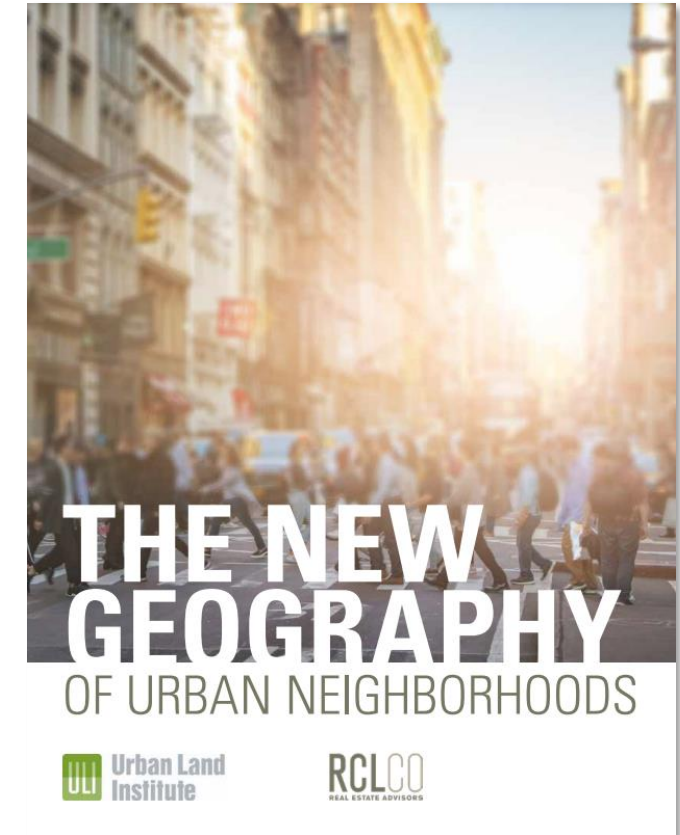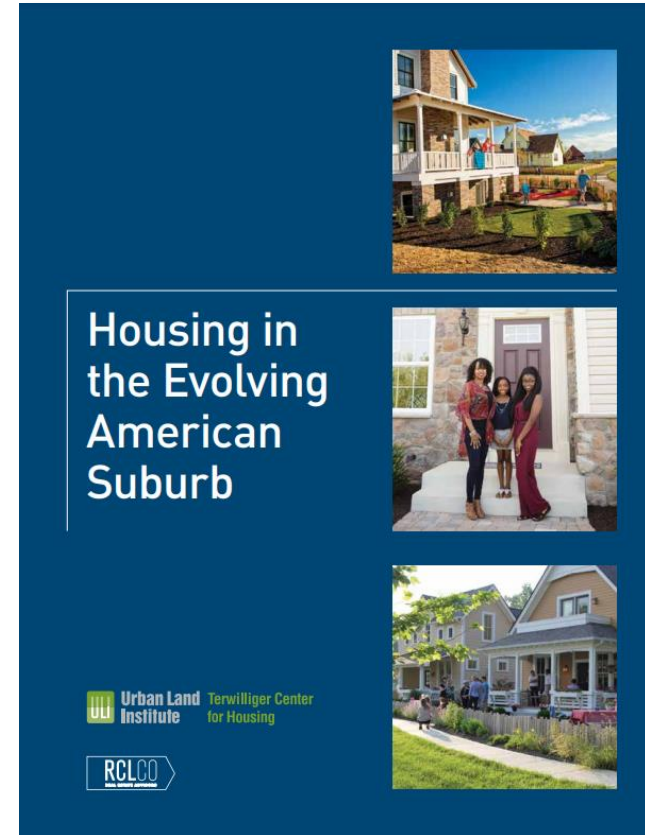
INTERACTIVE MAP
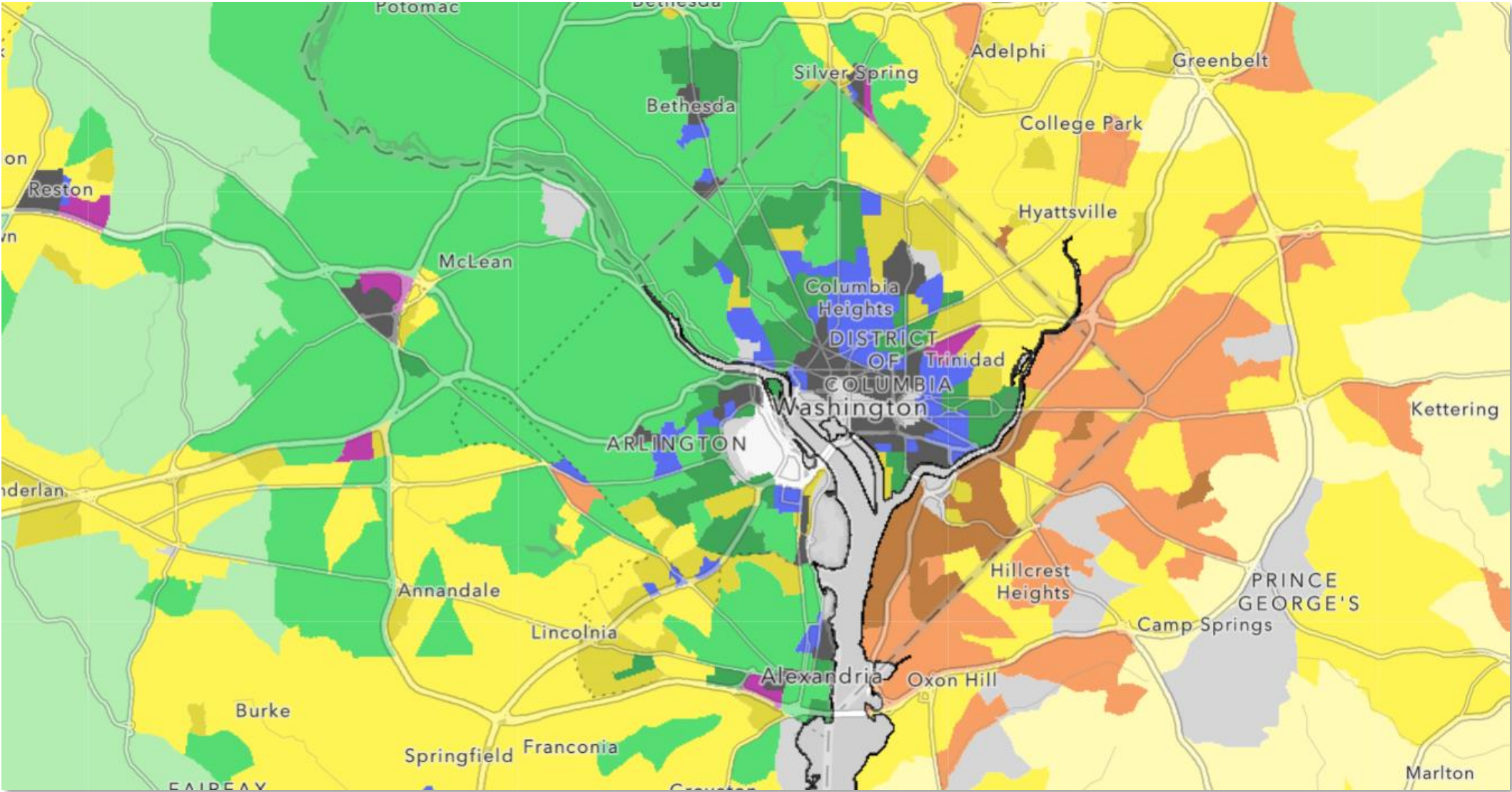
MAP KEY

URBAN
- Economic Center
- Mixed-Use District
- Emerging Economic Center
- High-End Neighborhood
- Stable Neighborhood
- Challenged Neighborhood

SUBURBAN
- Established High-End
- Stable Middle-Income
- Economically Challenged
- Greenfield Lifestyle
- Greenfield Value

Other (Park/Institutional)

APPLICATION TO WORK
Used to analyze growth patterns and other trends

Average Annual Household Growth by Neighborhood Type
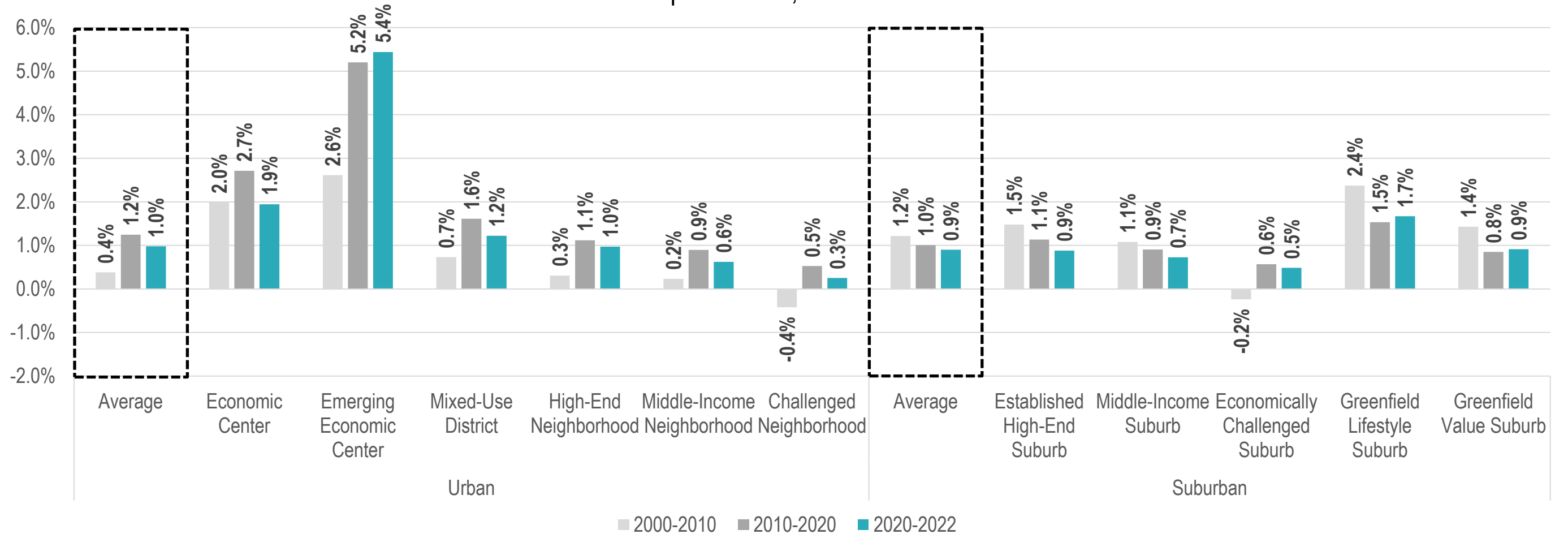Top 50 MSAs; 2000-2022

Legend: 2000-2010 | 2010-2020 | 2020-2022

Urban
- Average: 0.4%, 1.2%, 1.0%
- Economic Center: 2.0%, 2.7%, 1.9%
- Emerging Economic Center: 2.6%, 5.2%, 5.4%
- Mixed-Use District: 0.7%, 1.6%, 1.2%
- High-End Neighborhood: 0.3%, 1.1%, 1.0%
- Middle-Income Neighborhood: 0.2%, 0.9%, 0.6%
- Challenged Neighborhood: -0.4%, 0.5%, 0.3%

Suburban
- Average: 1.2%, 1.0%, 0.9%
- Established High-End Suburb: 1.5%, 1.1%, 0.9%
- Middle-Income Suburb: 1.1%, 0.9%, 0.7%
- Economically Challenged Suburb: -0.2%, 0.6%, 0.5%
- Greenfield Lifestyle Suburb: 2.4%, 1.5%, 1.7%
- Greenfield Value Suburb: 1.4%, 0.8%, 0.9%

APPLICATION TO WORK
Used to analyze growth patterns and other trends

Average Asking Rent by Neighborhood Type
Top 50 MSAs; 2022

Urban: Average $2.44, Economic Center $3.20, Emerging Economic Center $2.45, Mixed-Use District $2.96, High-End Neighborhood $2.37, Middle-Income Neighborhood $1.92, Challenged Neighborhood $1.50

Suburban: Average $1.84, Established High-End Suburb $1.96, Middle-Income Suburb $1.83, Economically Challenged Suburb $1.70, Greenfield Lifestyle Suburb $1.83, Greenfield Value Suburb $1.88

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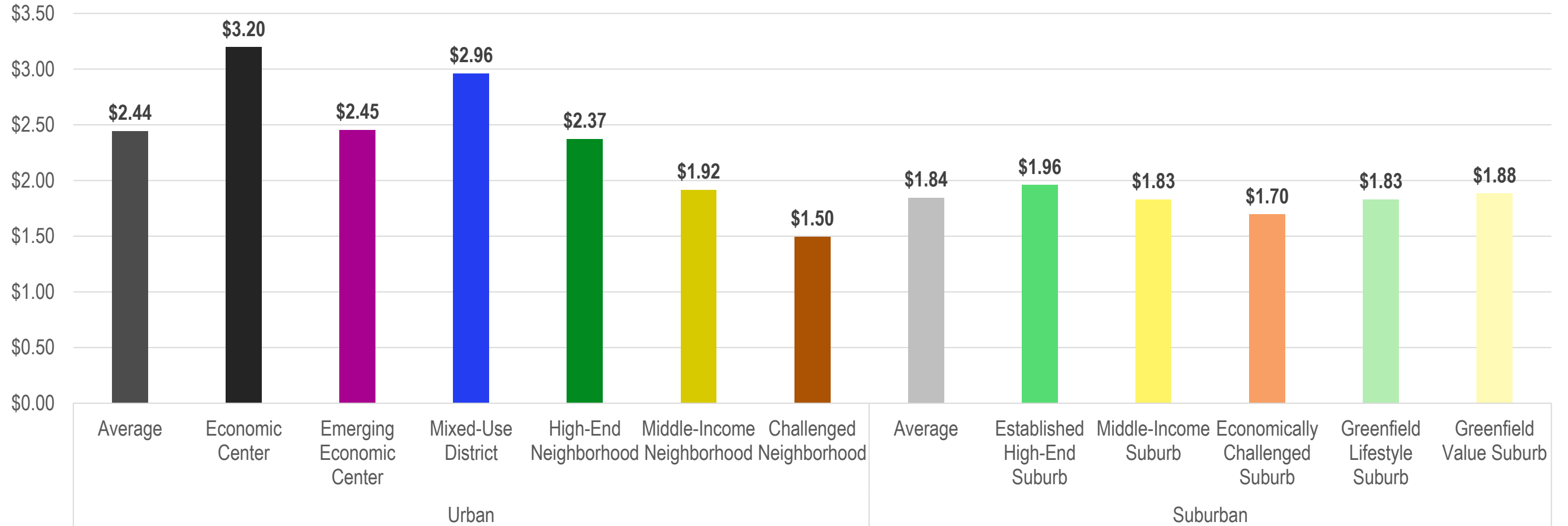
APPLICATION TO WORK
Used to analyze growth patterns and other trends

Average Rent Growth by Neighborhood Type
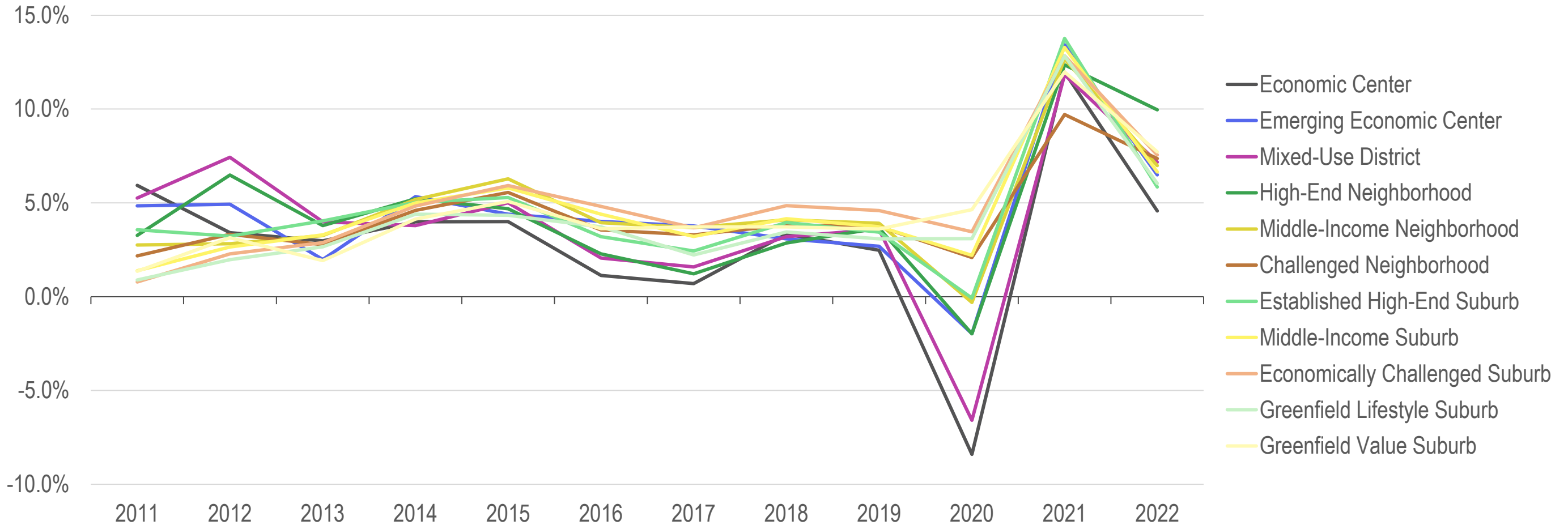Top 50 MSAs; 2011-2022

Legend:
- Economic Center
- Emerging Economic Center
- Mixed-Use District
- High-End Neighborhood
- Middle-Income Neighborhood
- Challenged Neighborhood
- Established High-End Suburb
- Middle-Income Suburb
- Economically Challenged Suburb
- Greenfield Lifestyle Suburb
- Greenfield Value Suburb

THANK YOU! – QUESTIONS?

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