

SENTIMENT SURVEY MID-YEAR RESULTS & OFFICE-TO-RESIDENTIAL OVERVIEW

RCLCO Monthly Webinar

Kelly Mangold Principal, RCLCO

Charles Hewlett Managing Director, RCLCO

Caroline Flax Ganz Vice President, RCLCO

Scot Bommarito Senior Research Associate, RCLCO Fund Advisors

RCLCO
REAL ESTATE CONSULTING

TODAY'S PANELISTS



Kelly Mangold

Principal
RCLCO

P: (240) 669-5638

E: kmangold@rclco.com



Charles Hewlett

Managing Director
RCLCO

P: (240) 644-10061

E: chewlett@rclco.com



Caroline Flax Ganz

Vice President
RCLCO

P: (240) 201-9270

E: cflaxganz@rclco.com



Scot Bommarito

Senior Research Associate
RCLCO Fund Advisors

P: (323) 489-3264

E: sbommarito@rclco.com



AGENDA

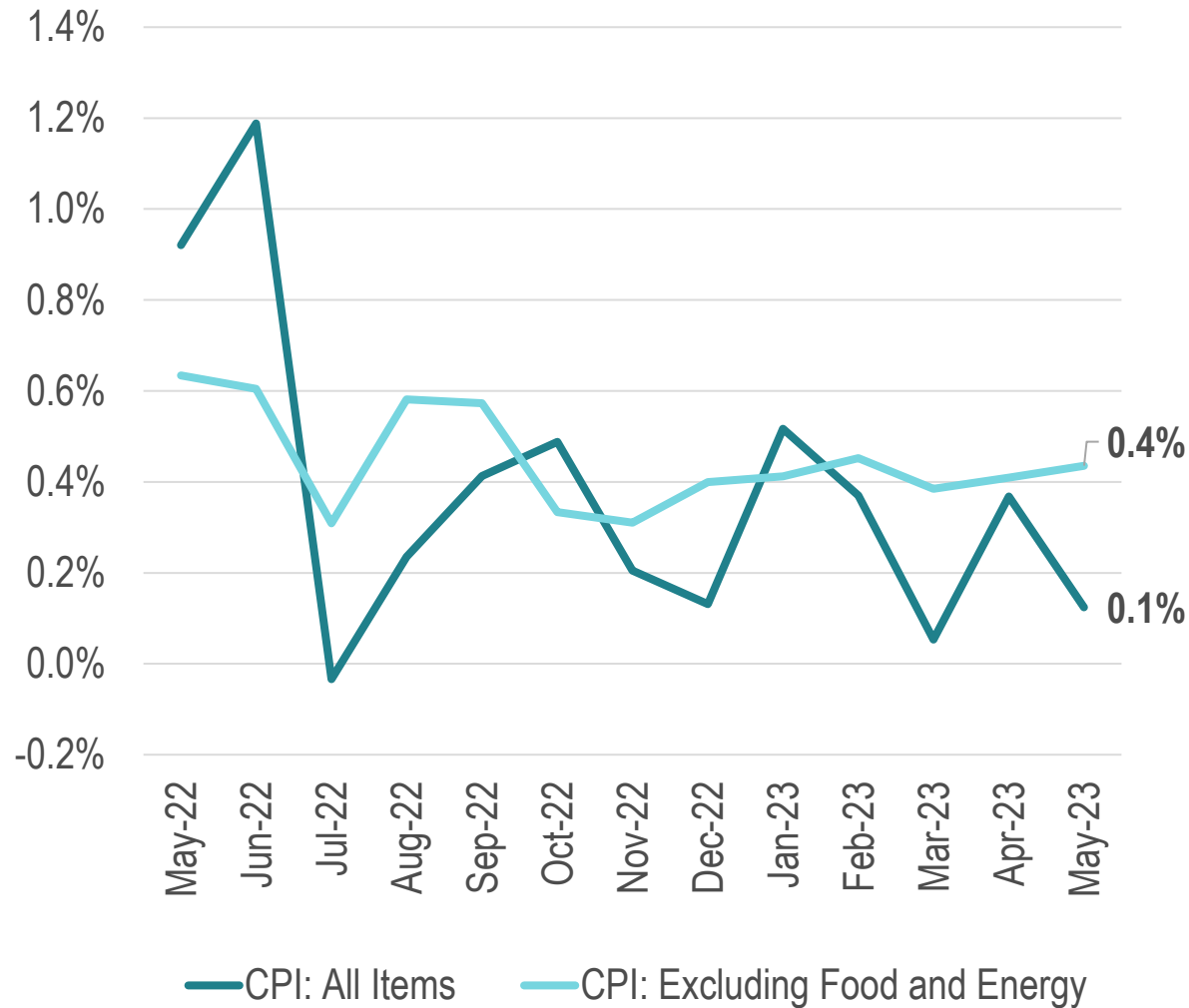
- ▶ **Macroeconomic Update**
- ▶ **Mid-Year Sentiment Survey Results**
- ▶ **Office-to-Residential Overview**
- ▶ **Q&A**

MACROECONOMIC UPDATE

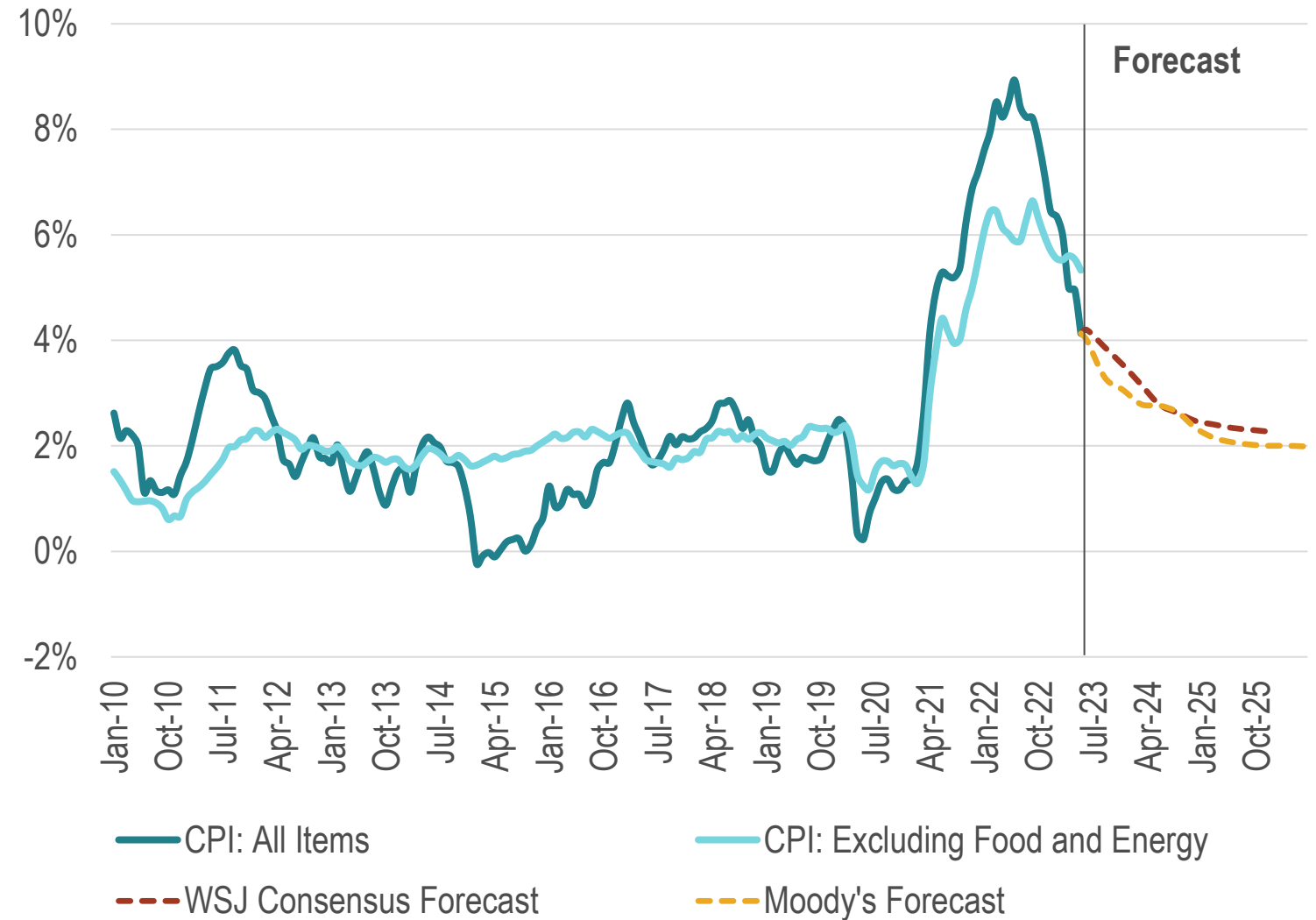
ANNUAL ALL ITEMS CPI COOLED TO 4.1%; CORE CPI STILL ELEVATED AT 5.3%

The Federal Reserve's Policy Tightening Has Brought Inflation Down, but It Is Still Above Target

Month-over-Month CPI Change



Trailing 12-Month CPI Change



TRAILING YEAR WAGE GROWTH SLOWED IN MAY BUT REMAINED HIGH AT 4.3%

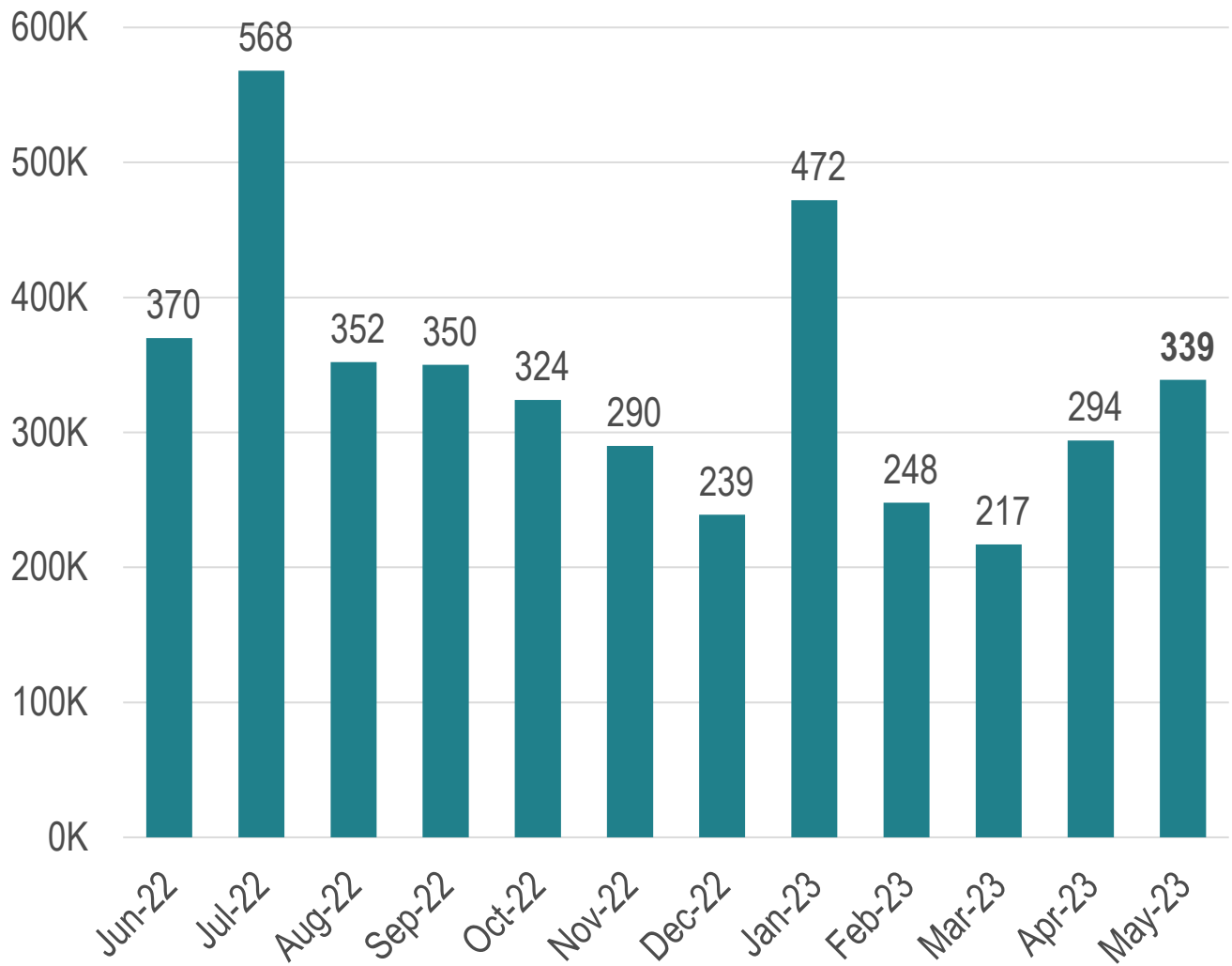
Wage Growth Outpaced All Items CPI for the First Time Since March 2021



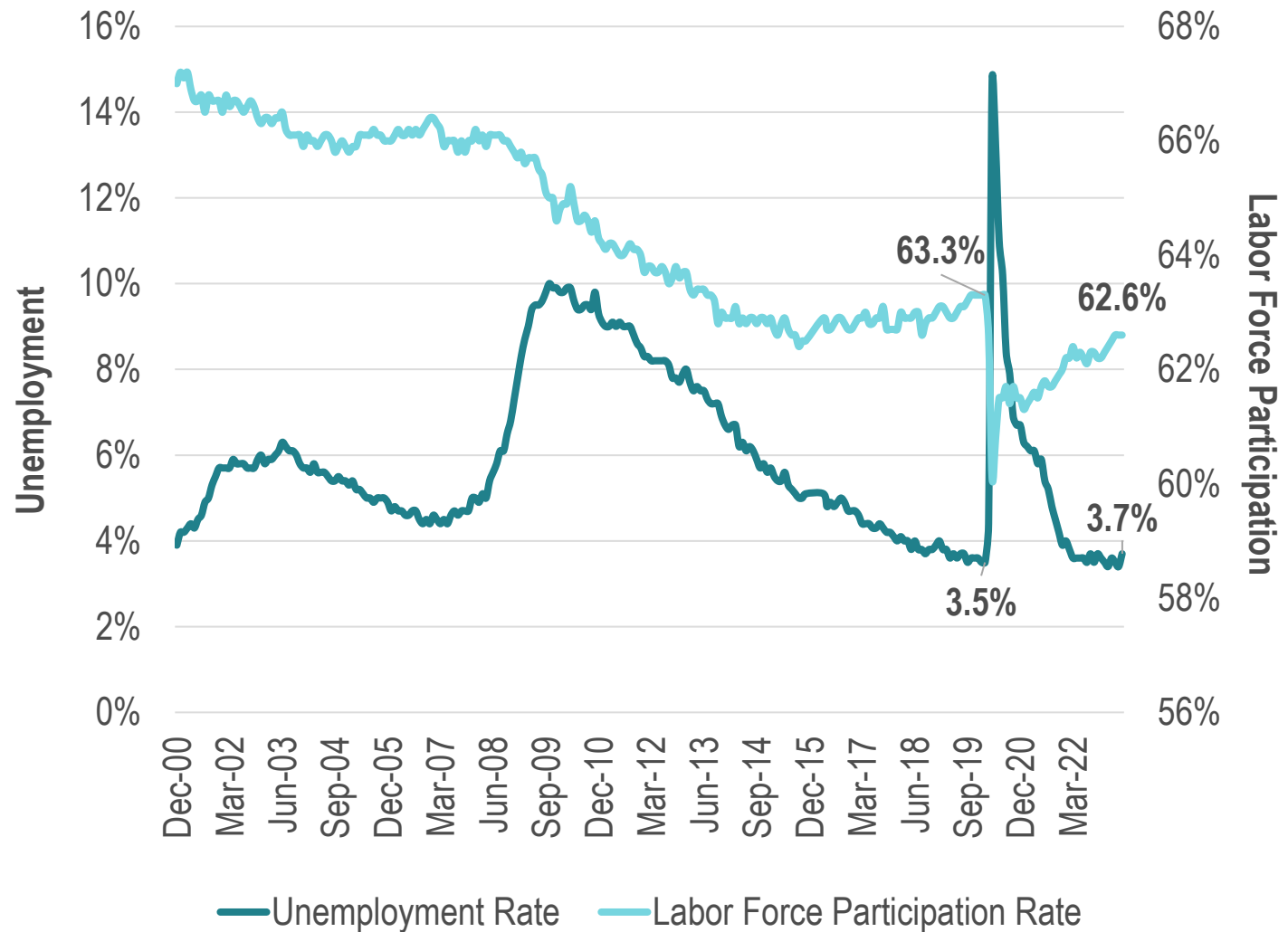
MAY JOB GROWTH SURPRISED ON THE UPSIDE; 1.6M JOBS ADDED YTD

Unemployment Rate Rose 30 bps MoM but Still Low; Labor Force Participation Up Modestly in 2023

Monthly Change in Employment



Unemployment and Labor Force Participation

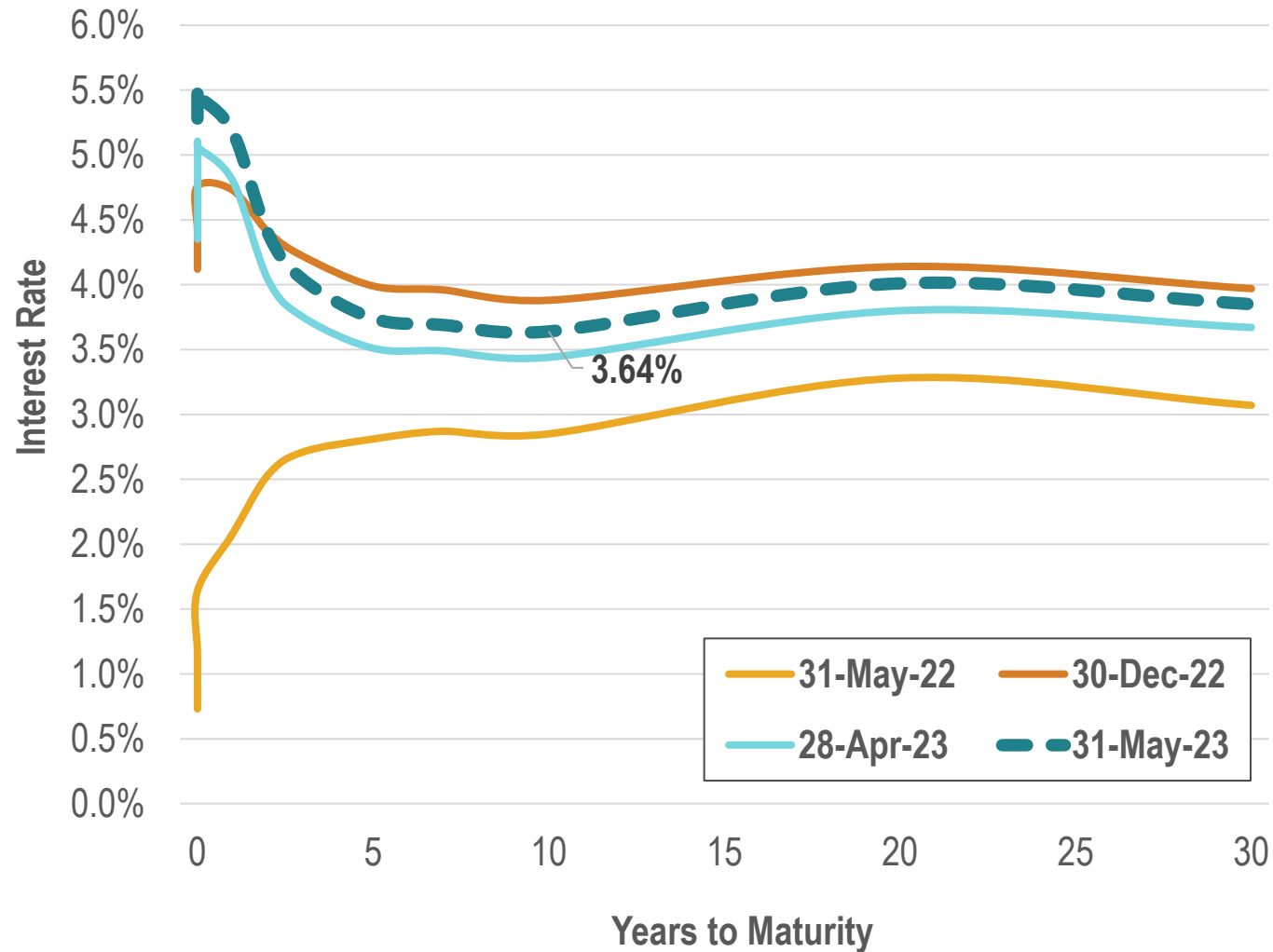


Data are as of May 2023. Source: U.S. Bureau of Labor Statistics; Federal Reserve Bank of St. Louis; Moody's

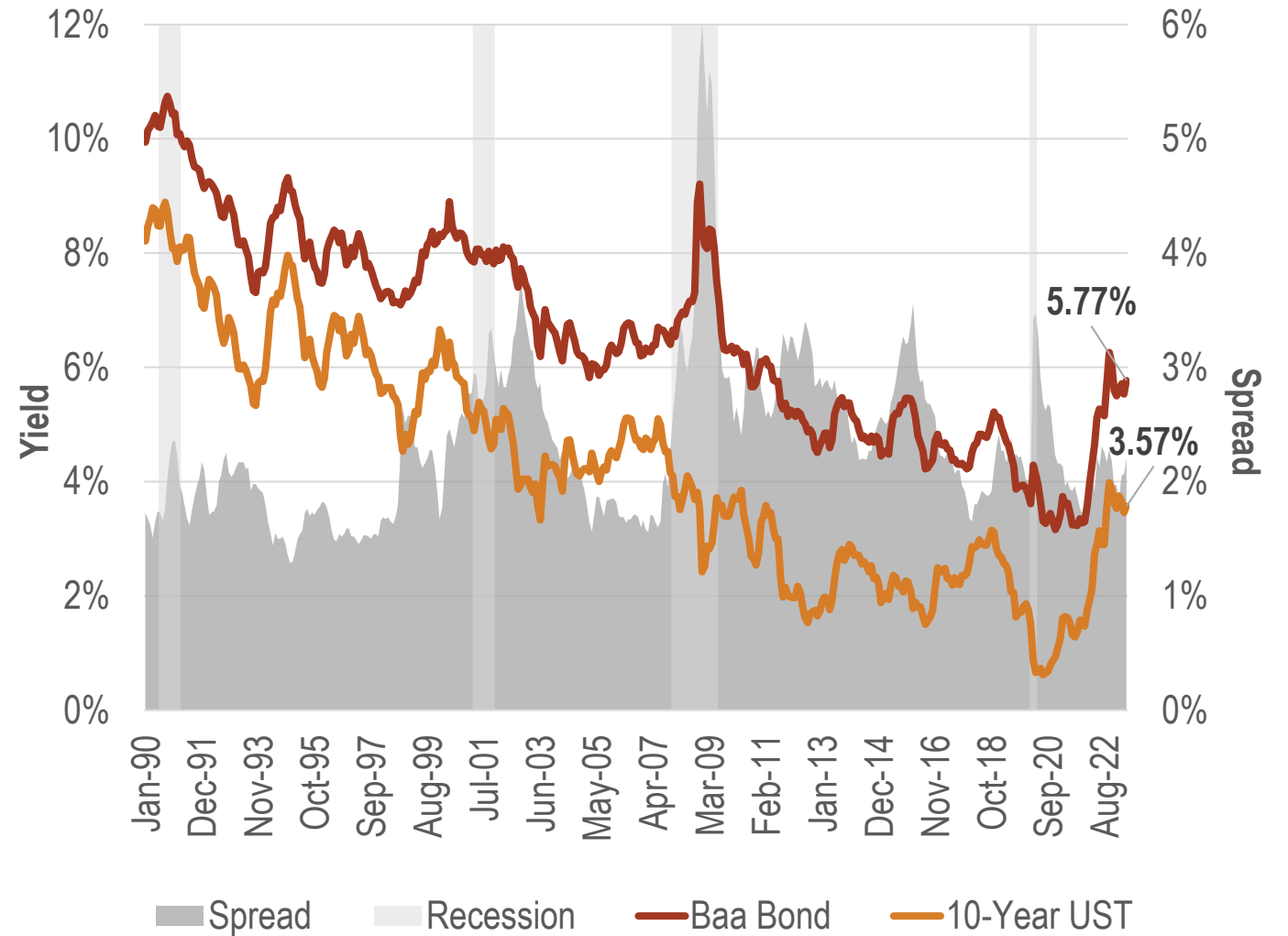
TREASURY YIELD CURVE REMAINS HIGHLY INVERTED, PREDICTING RECESSION

Baa Corporate Bond Spread to 10-Year UST Has Been Healthy, Suggesting Recession Has Not Yet Hit

US Yield Curve



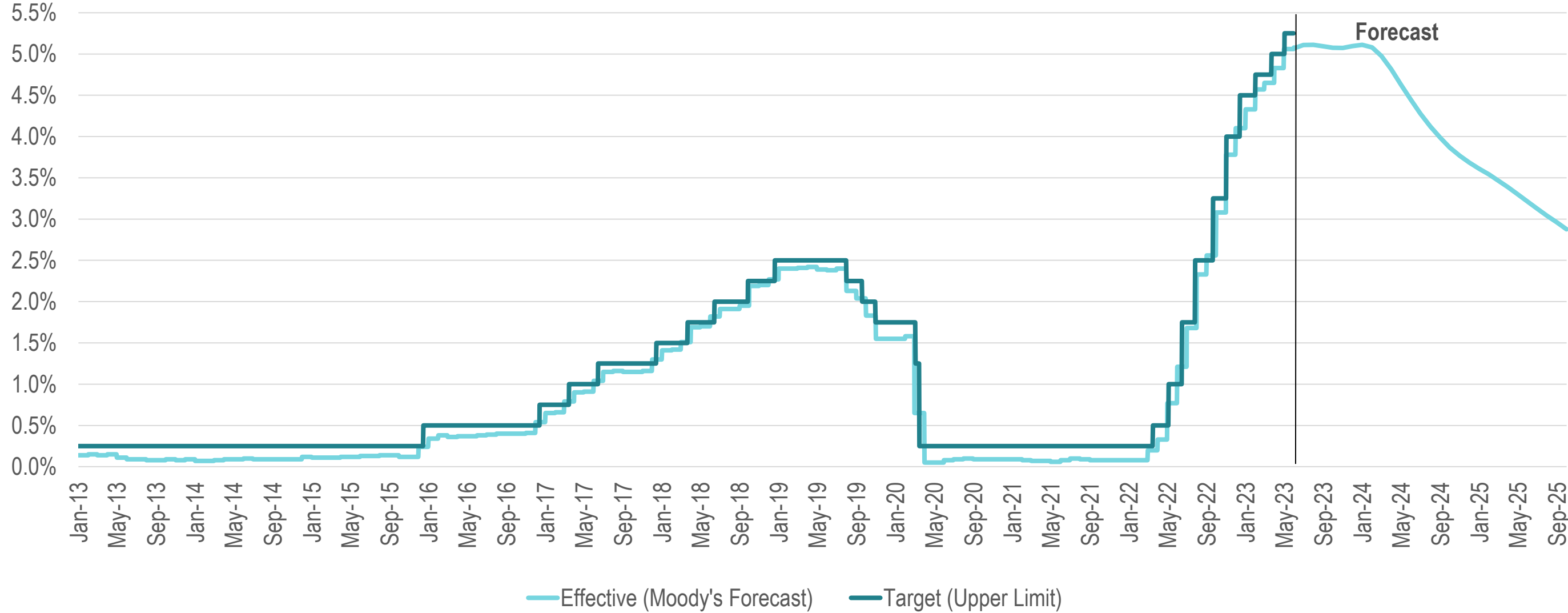
Baa Corporate Bond & UST Yields (Monthly Averages)



THE FED HELD THE FUNDS RATE STEADY IN JUNE AFTER 25-BPS HIKE IN MAY

Rates Are Likely to Remain Near Current Highs Through 2023 with Rate Cuts Starting in Early 2024

Federal Funds Rate

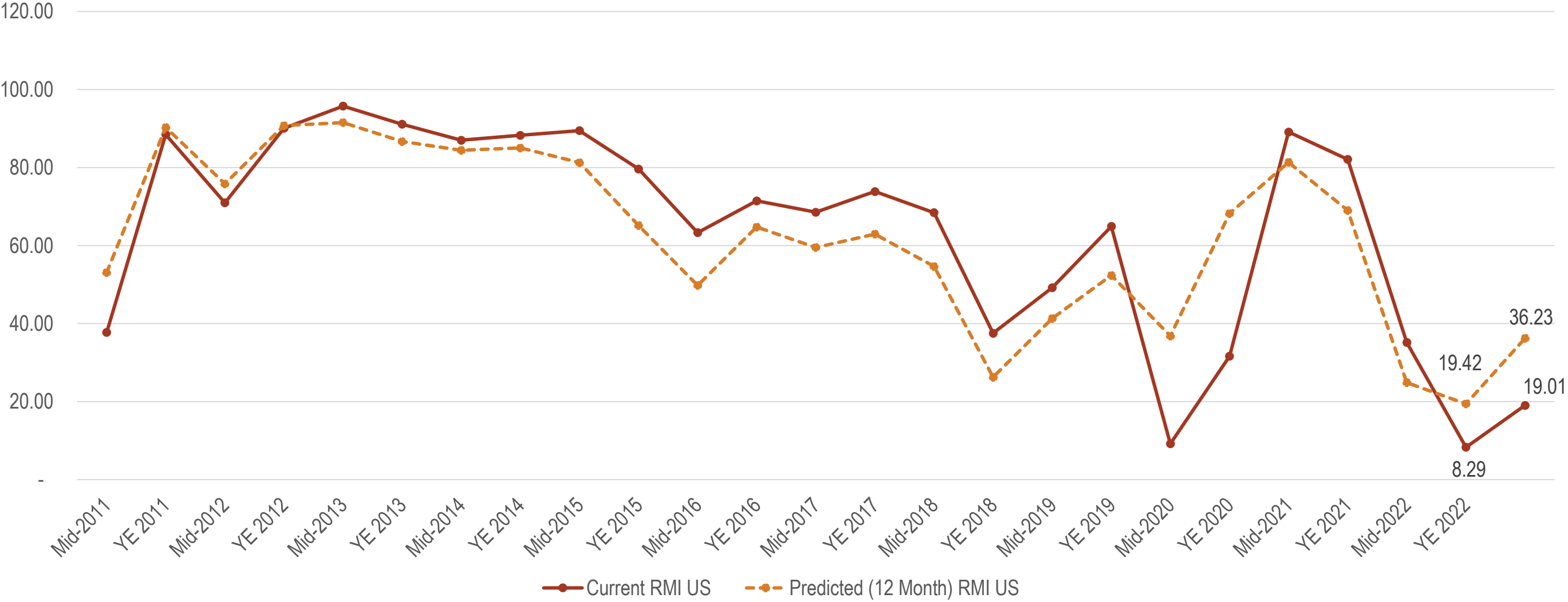


MID-YEAR RCLCO SENTIMENT SURVEY RESULTS

SENTIMENT SURVEY RESULTS

Sentiment Rises from 8.29 to 19.01 and is Predicted to Continue Rising

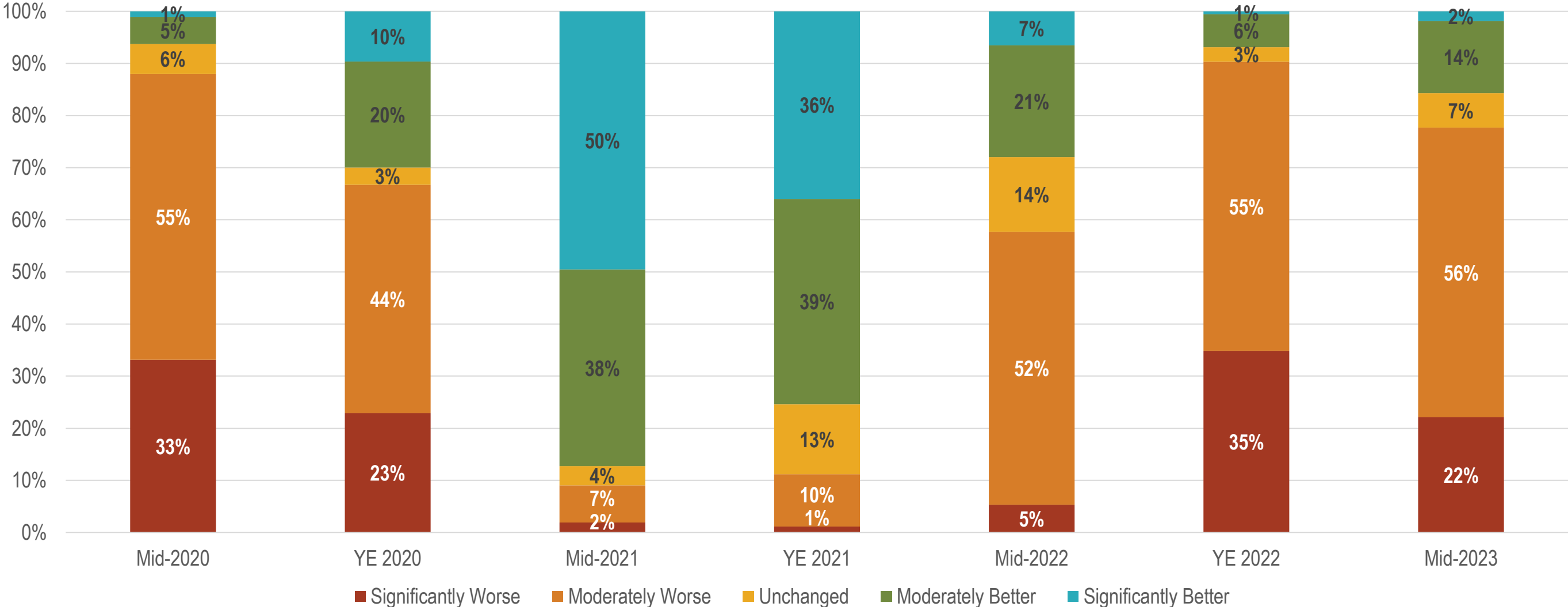
RCLCO National Real Estate Market Index



SENTIMENT SURVEY RESULTS

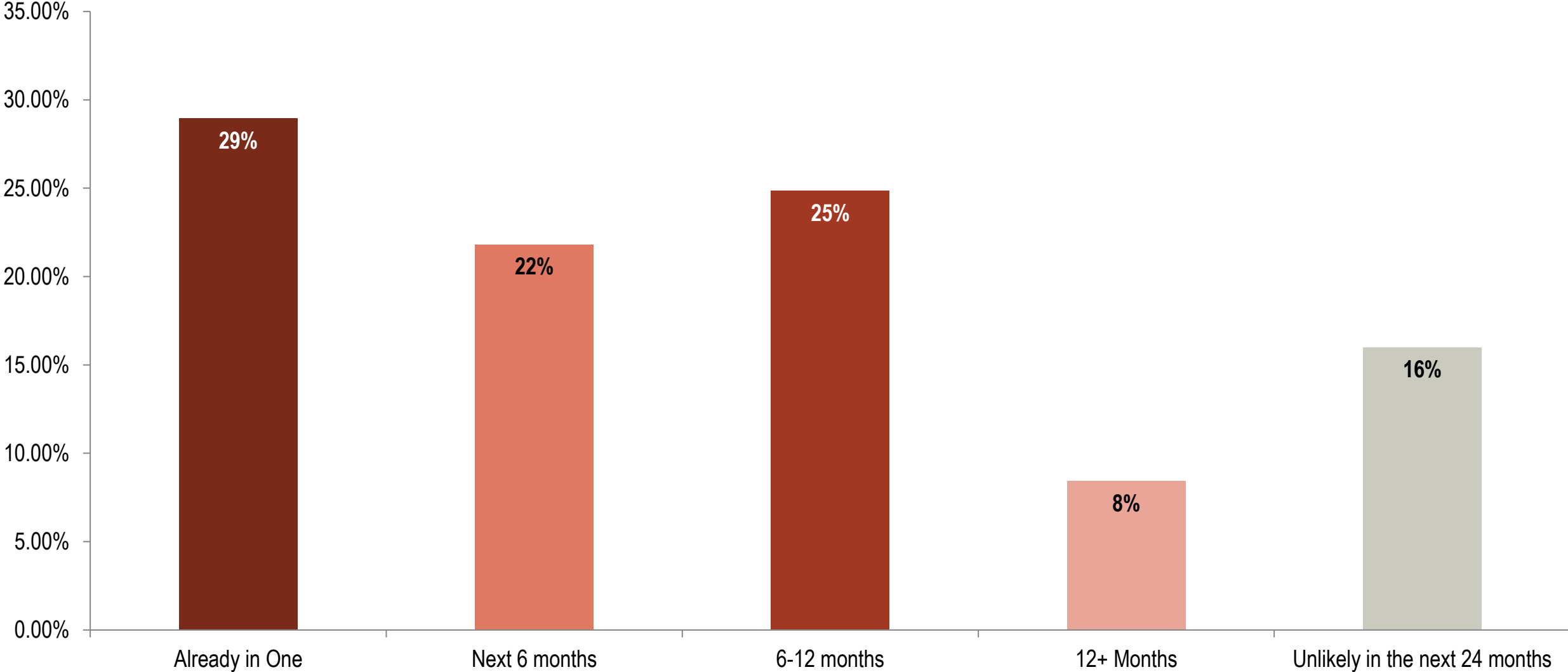
How Would You Rate National Real Estate Market Conditions Today Compared with One Year Ago?

Current National Sentiment Survey Over Time



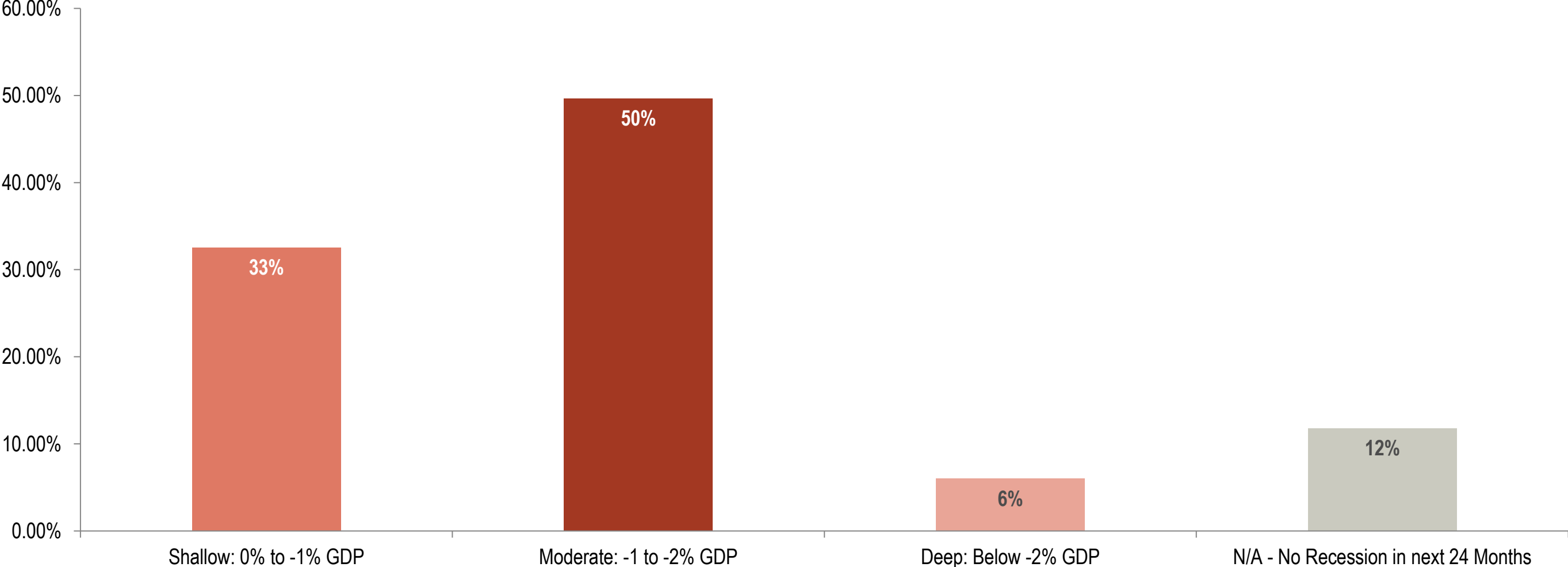
SENTIMENT SURVEY RESULTS

When will the next U.S. Recession occur?



SENTIMENT SURVEY RESULTS

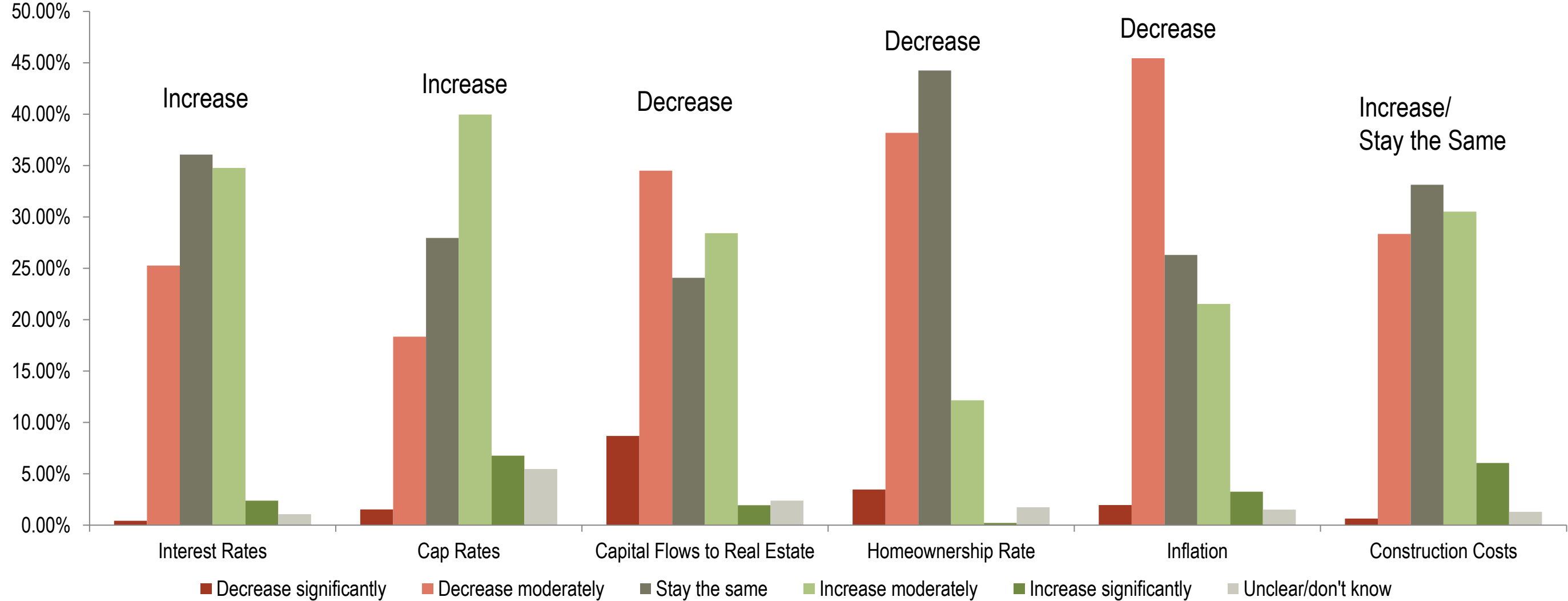
What Do You Believe the Depth of Recession Will Be?



SENTIMENT SURVEY RESULTS

6-12 Month Outlook of Various Economic Indicators

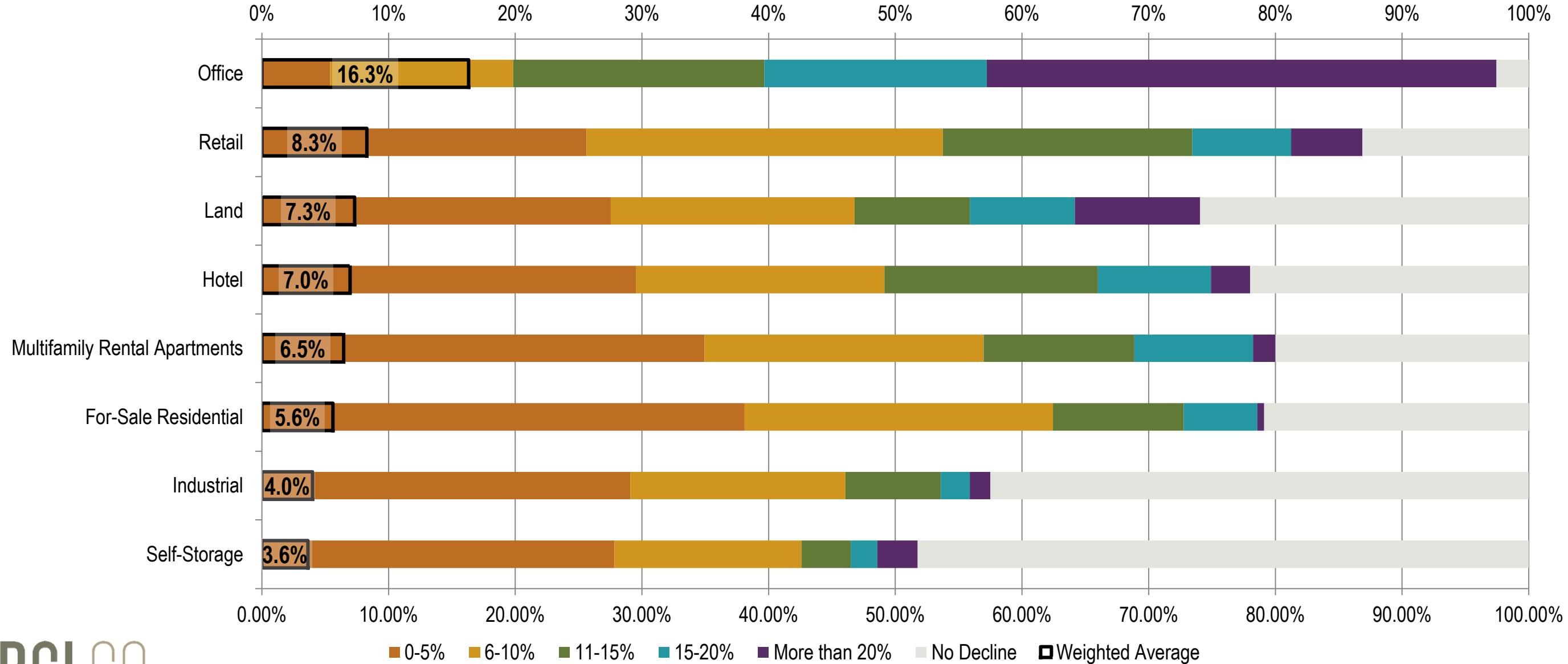
What do you expect to happen with the following economic indicators over the next 6 to 12 months nationally?



SENTIMENT SURVEY RESULTS

Peak to trough values range by asset type, with office topping the list with a 16.3% decline

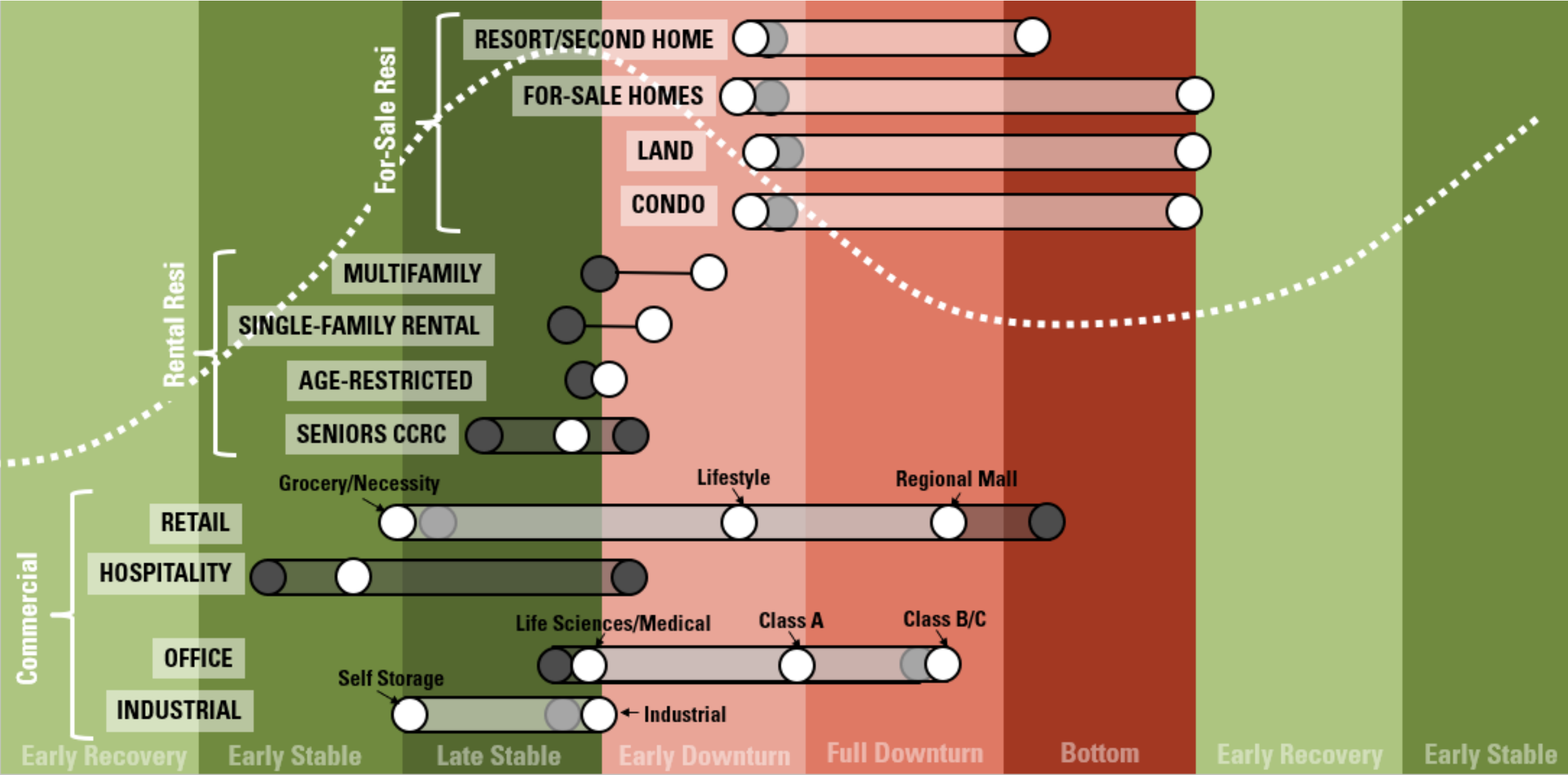
How far do you think that real estate values will decline peak-to-trough in the current cycle?



RCLCO REAL ESTATE CYCLE CHART

YE 2022

Mid-2023
 Longer range = less consensus



OFFICE-TO-RESIDENTIAL OVERVIEW

A LOOK BACK AT OFFICE-TO-RESIDENTIAL CONVERSION

Office to Residential Conversions Not New. . . But:

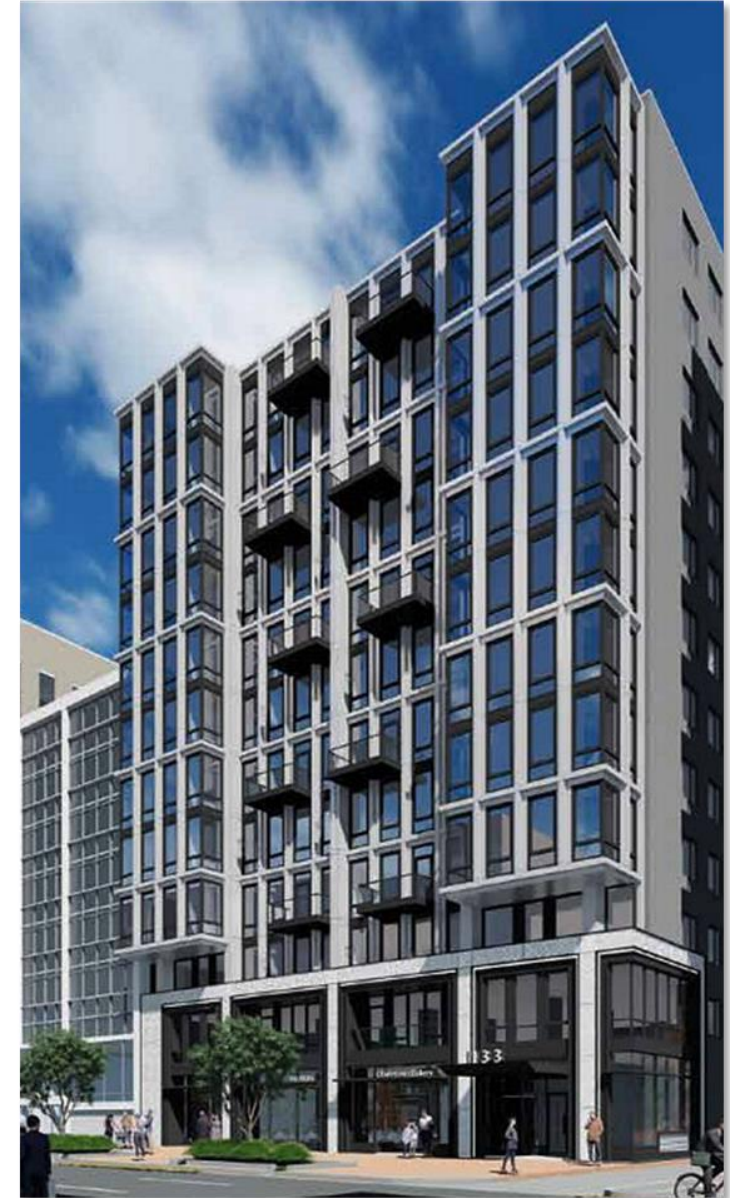
- ▶ Very limited in number
- ▶ Mostly in historic “downtowns”
- ▶ Typically obsolete structures, either Pre-war/1st generation towers or industrial buildings
- ▶ Traded on the cache of historic character



A LOOK BACK AT OFFICE-TO-RESIDENTIAL CONVERSION

Why Was it Limited?

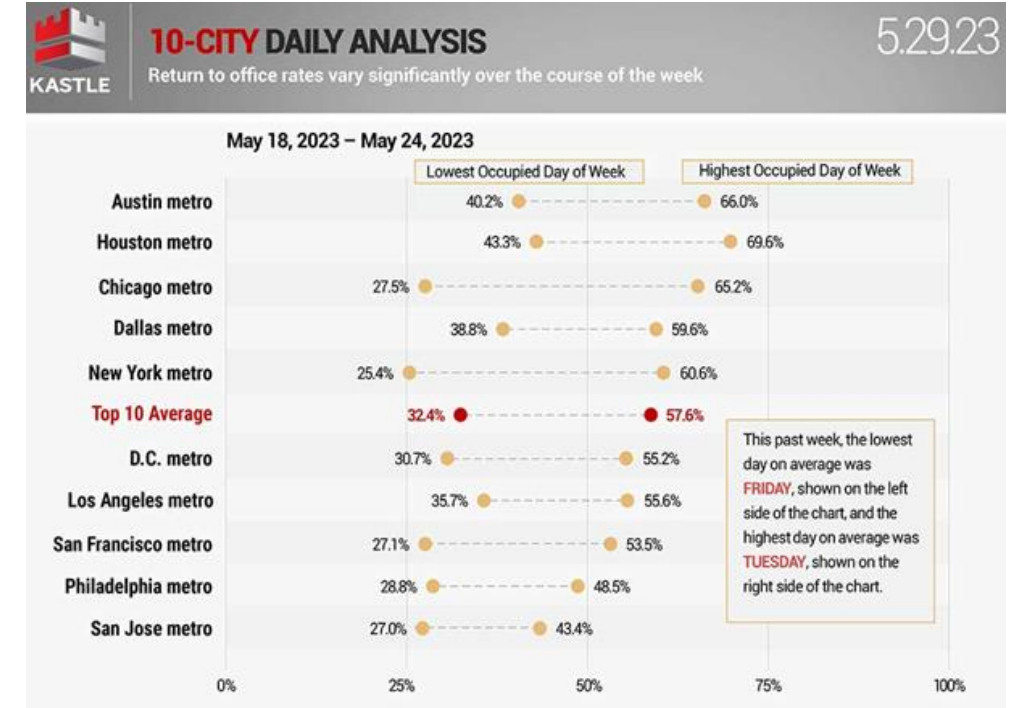
- ▶ Office buildings usually more expensive than residential
- ▶ Cost to convert often comparable to new build
- ▶ Development sites (urban or suburban) not hard to find
- ▶ Cities traditionally resisted this conversion – bad fiscal trade off



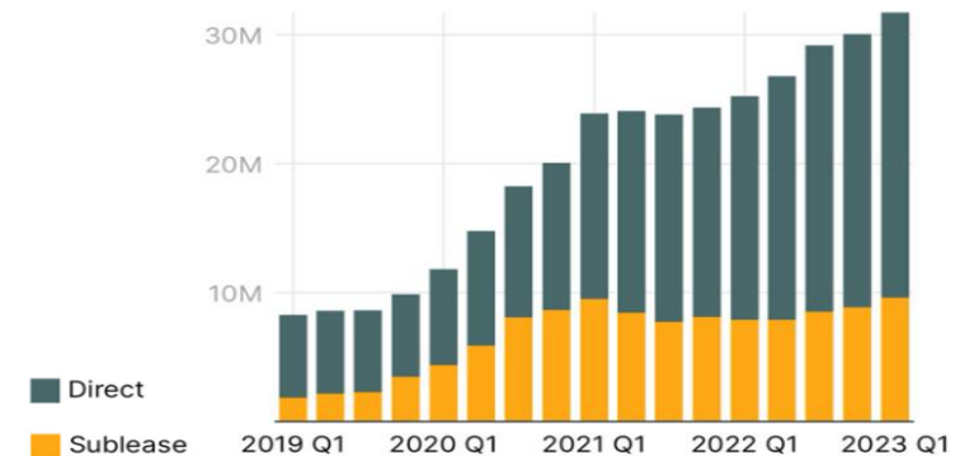
EVOLVING LANDSCAPE FOR CONVERSION

Office Market Outlook Worse Than Prior Cycles, Likely Structural:

- » Increasing obsolescence
- » Increasing vacancy rates
- » Work from home phenomenon still early in it's unfolding
- ▶ Declining investor appetite
- ▶ All leads to fundamental repricing



San Francisco Office Square Footage Availability by Lease Type

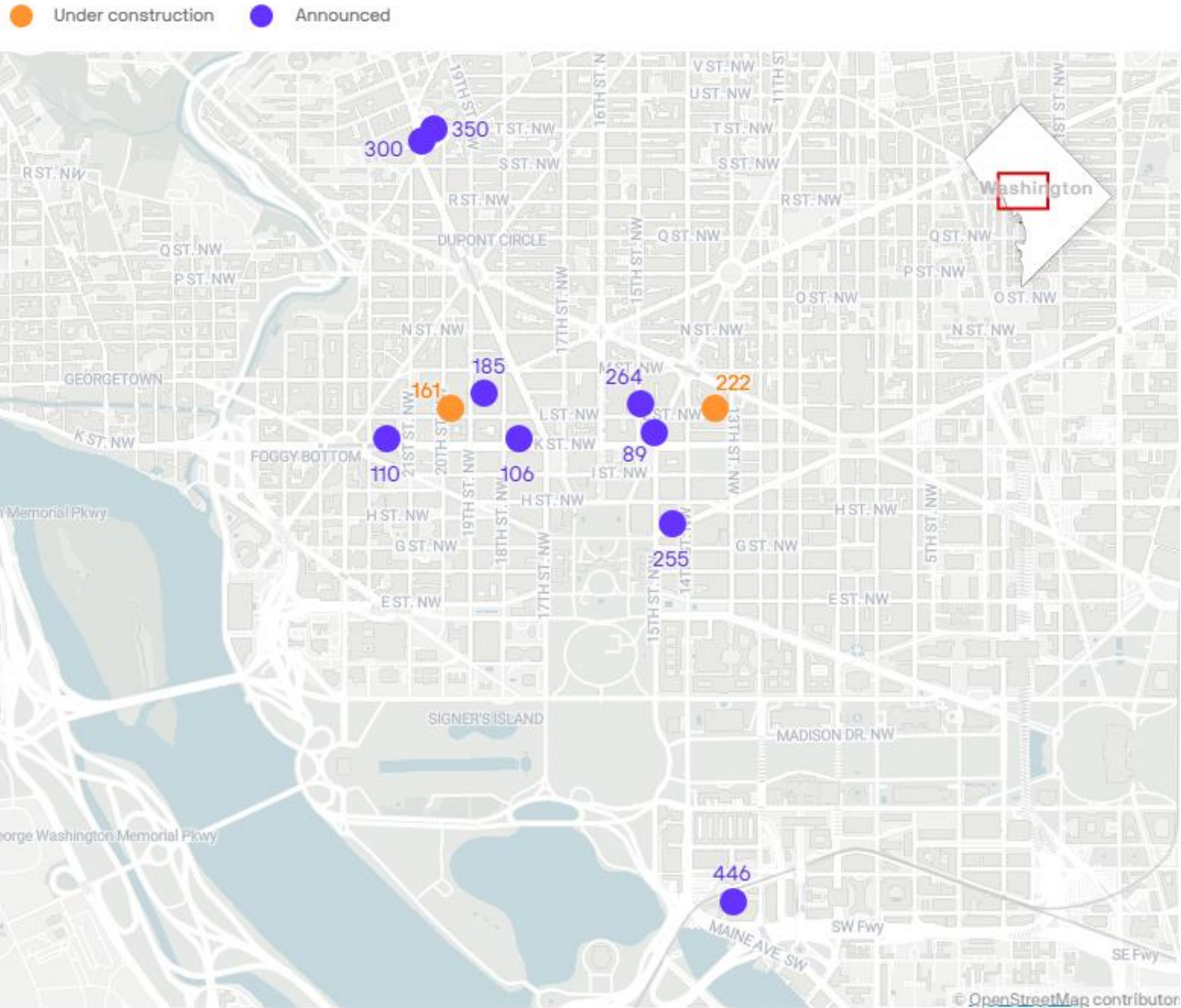


Source: CoStar and Cresa

EVOLVING LANDSCAPE FOR CONVERSION

Industry Overcoming Obstacles to Conversion:

- ▶ Cost of new construction dramatically higher
- ▶ Technical expertise growing rapidly
- ▶ Code issues increasingly reasonable to navigate



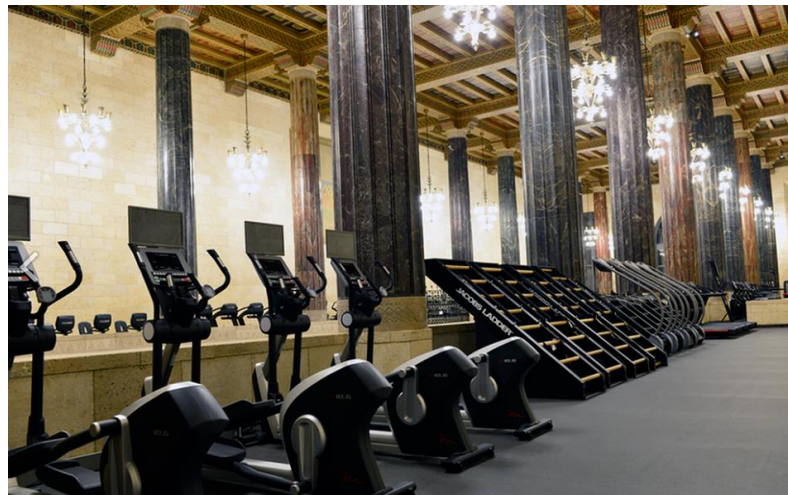
Data: DowntownDC BID, Golden Triangle BID. Map: Axios Visuals

EVOLVING LANDSCAPE FOR CONVERSION

Industry Overcoming Obstacles:

- ▶ Getting comfortable with partial conversions
- ▶ Learning how to use interior space for amenities
- ▶ Interior facing units

Arrive Inner Harbor (10 Light Street) | Baltimore, MD



EVOLVING LANDSCAPE FOR CONVERSION

Capital Markets Increasingly Open to Conversions:

- ▶ Historic tax credits
- ▶ Equity investor increasing sophistications
- ▶ Debt markets sustained appetite for multifamily
- ▶ Speed to market (compared to new construction) changes risk profile for some

The Maclellan Apartments | Chattanooga, TN



Source: The Maclellan Apartments

EVOLVING LANDSCAPE FOR CONVERSION

Regulatory Environment Increasingly Open to Conversions:

- ▶ Sense of market reality settling in
- ▶ Increased appreciation for mixed-use as perhaps preferable to office-dominated cores
- ▶ Better appreciation of fiscal realities of urban apartments
- ▶ Even some signs of public support (facilitation) of conversion momentum

The Elle Apartments (Former Peace Corps Headquarters) | Washington, DC



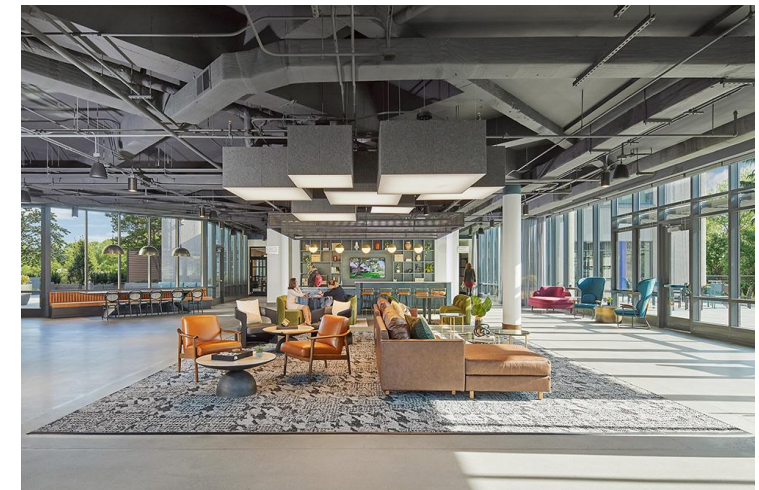
Source: Washington Business Journal; CBRE

EVOLVING LANDSCAPE FOR CONVERSION

Growing Understanding of Market Dynamics:

- ▶ Understanding the premium potential of conversions
- ▶ Success of post-war building conversions
- ▶ More examples of suburban success
- ▶ Comfort levels with too much or too little parking

Park & Ford | Alexandria, VA



POTENTIAL GAME CHANGERS

- ▶ Changes in construction technology
- ▶ Changes in construction costs
- ▶ City incentives for conversion
- ▶ Waning energy around back to work efforts
- ▶ Continued focus on "sustainable/green" advantages of conversion to new construction

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The charts depicted within this presentation are for illustrative purposes only and are not indicative of future performance.

THANK YOU! – QUESTIONS?



Kelly Mangold

Principal
RCLCO

P: (240) 669-5638

E: kmangold@rclco.com



Charles Hewlett

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P: (240) 644-10061

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