

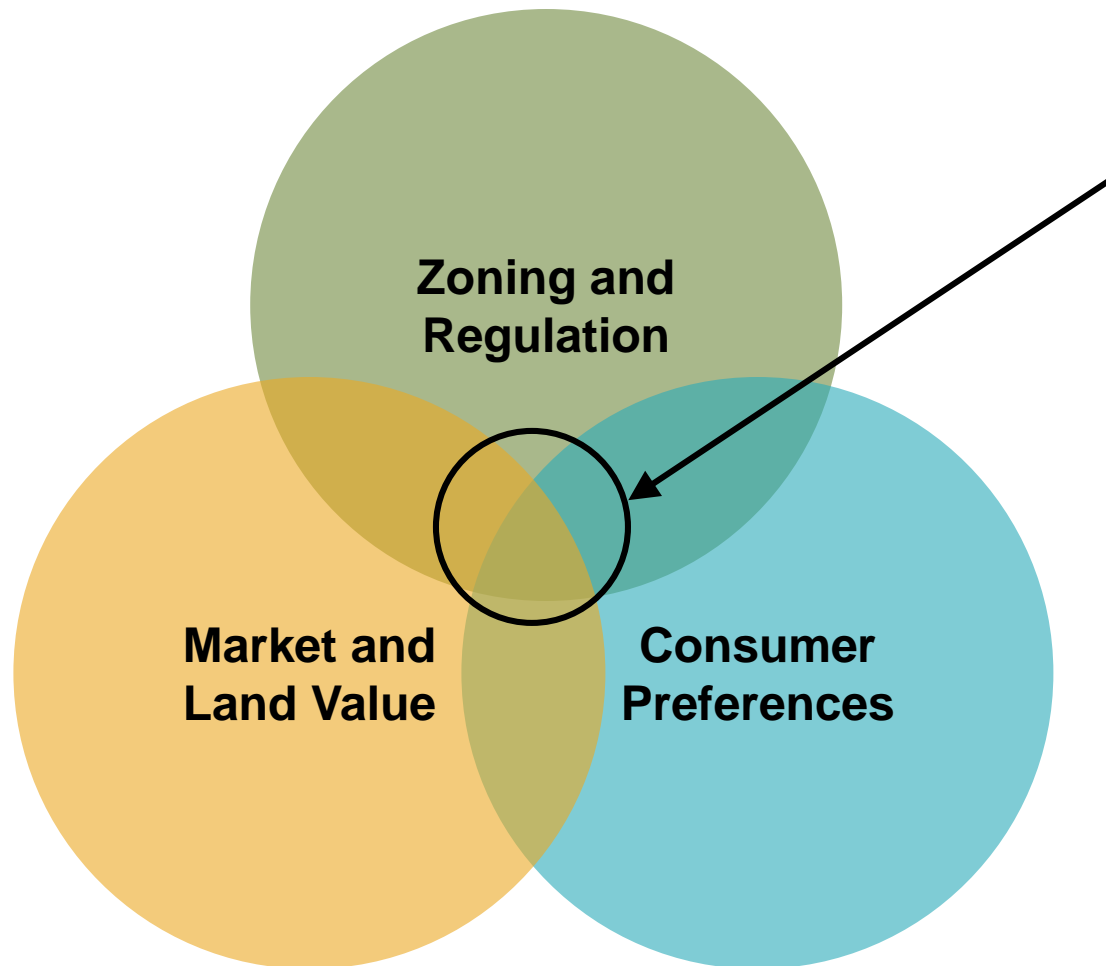


National Update and Market Overview



ULI Colorado: Community Development Product Council Winter Symposium
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Todd LaRue, Managing Director



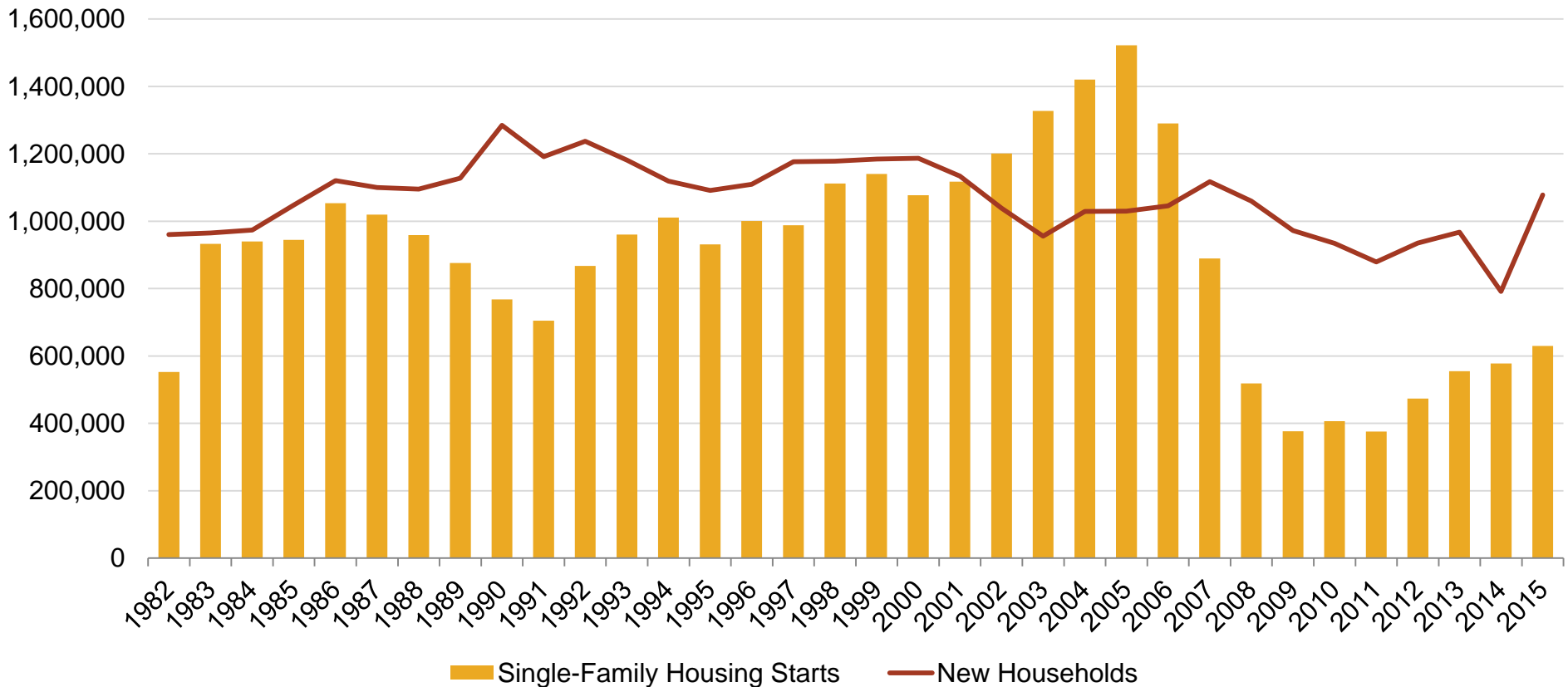
This is what gets built.

Today, zoning and land prices are impacting the feasibility of meeting demand for attainably priced new supply.

HOUSEHOLD FORMATION OUTPACING SINGLE-FAMILY STARTS

In 2015, there were over 1 million new households and only 630,000 single-family housing starts—well below the long-run average.

Single-Family Housing Starts and Household Formation

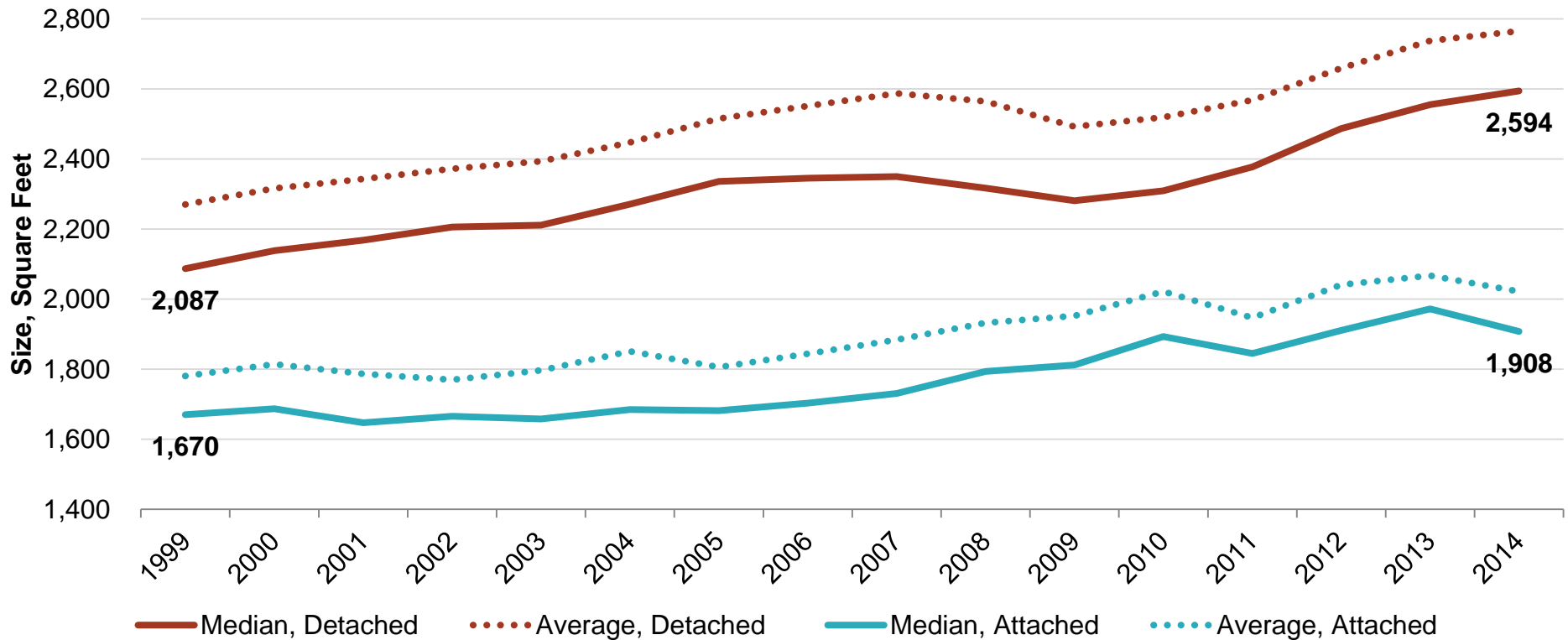


Source: Moody's Analytics. Note: Single-Family Housing Starts include housing units defined as single-family by the U.S. Census Bureau

DEVELOPERS ARE BUILDING BIGGER

New single-family homes keep getting bigger—roughly 900 SF bigger than in 1974. Just since 1999, new detached homes are 500 SF bigger and attached homes are 240 SF bigger.

Size of New Single-Family Homes Sold in the U.S.

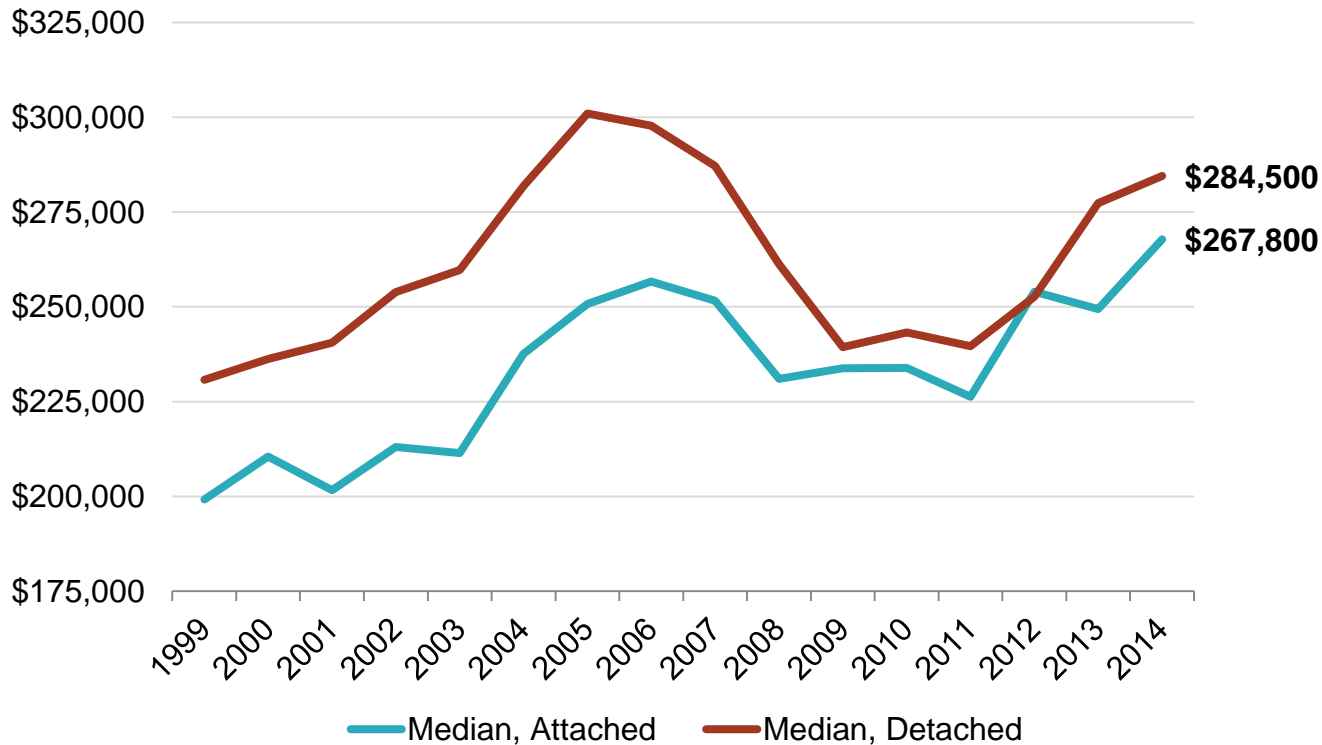


Source: U.S. Census Bureau Survey of Construction

NEW SINGLE-FAMILY HOMES COST MORE

The increase in size has pushed pricing up on an absolute basis for both attached and detached new product. (Attached home pricing has also increased significantly on a \$/SF basis.)

Inflation Adjusted New Single-Family Home Prices



New Single-Family Homes, 1990-2014

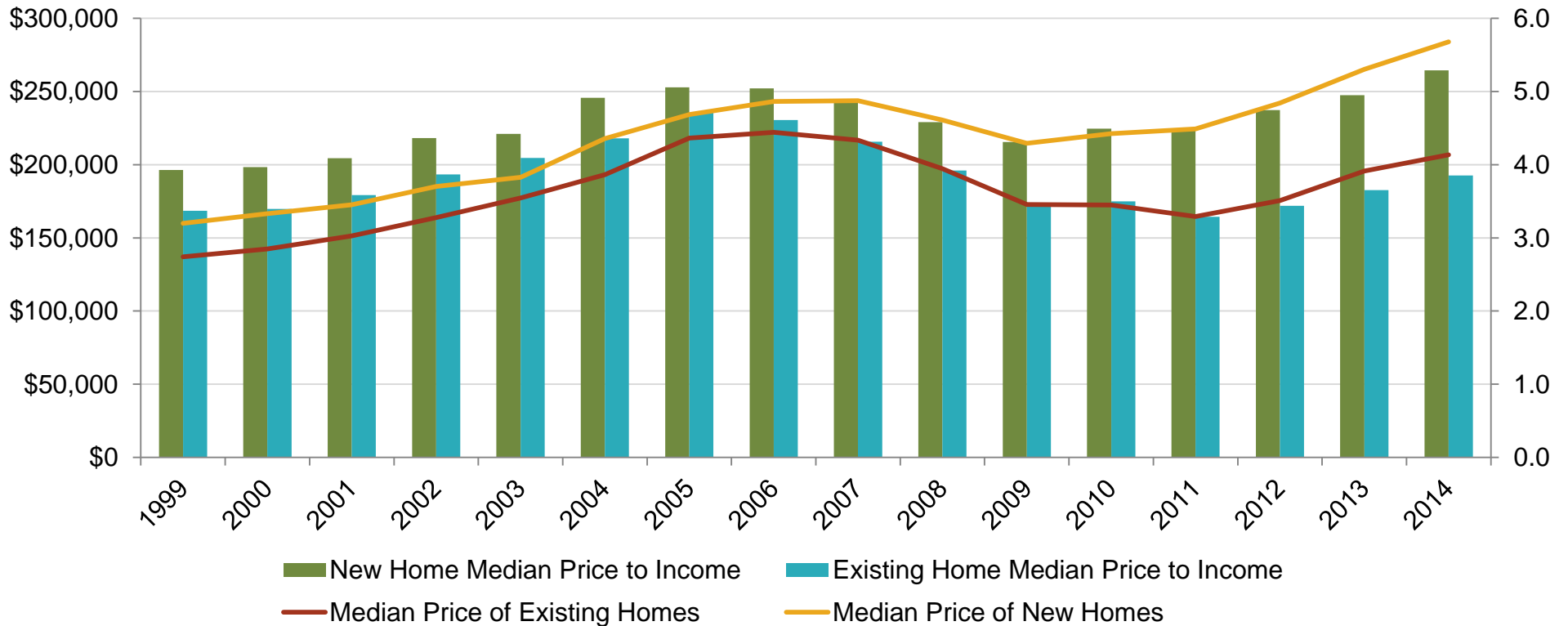
| | Size Increase | Price Increase |
|-----------------|---------------|----------------|
| Attached | | |
| Median | 14% | 34% |
| Average | 14% | 36% |
| Detached | | |
| Median | 24% | 23% |
| Average | 22% | 23% |

Source: U.S. Census Bureau Survey of Construction

HOME PRICES RISING FASTER THAN INCOME

Home prices have been rising since 2012, with new homes capturing majority of the growth in value, particularly given how new homes have been focused toward high-end buyers.

U.S. Median New and Resale Home Price to Income Ratio

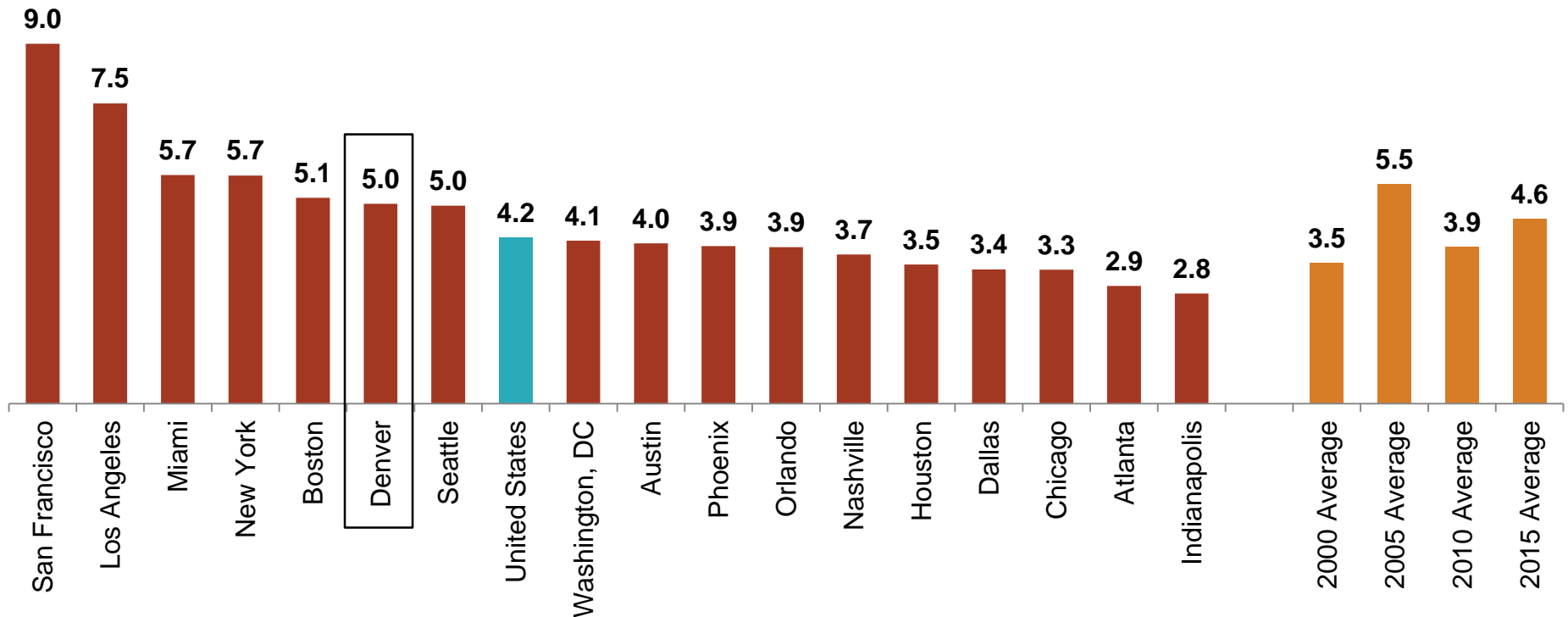


Source: FRED

RESALE PRICING RELATIVE TO INCOMES

For the cities below, median single-family home resale prices today are on average 4.6 times the median household income, up from 3.5 in 2000 but down from 5.5 in 2005.

Median Resale Single-Family Home Price as a Multiple of Median Household Income, 2015

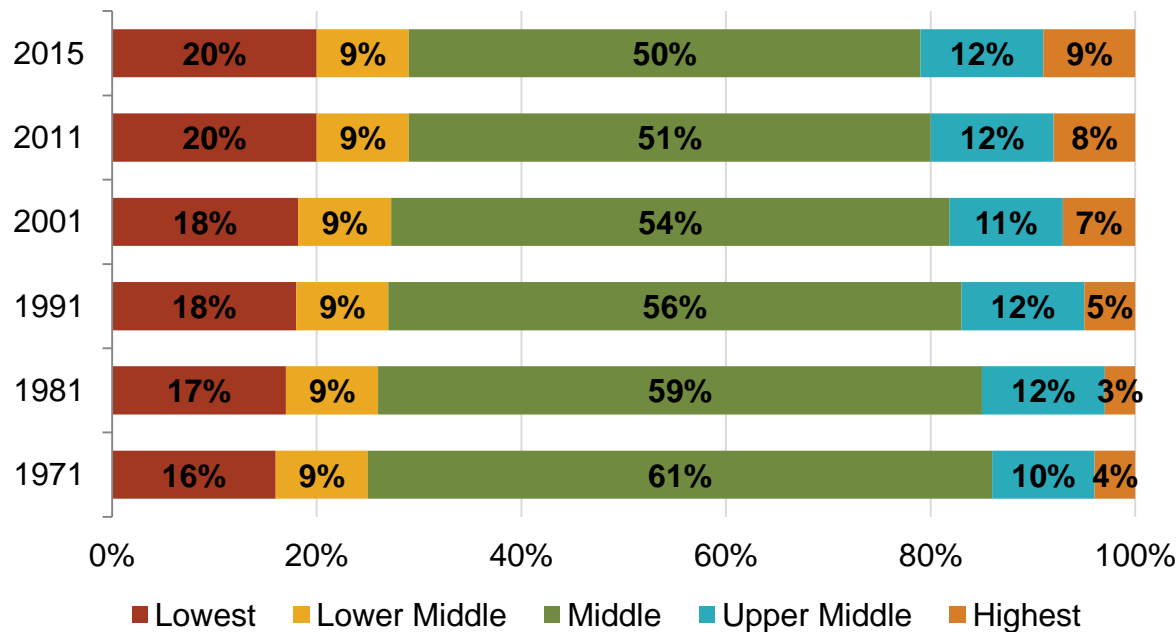


Source: Moody's; RCLCO. Note: Historical average is for the set of cities surveyed here, not the U.S. overall.

BUILDING FOR THE TOP OF MARKET

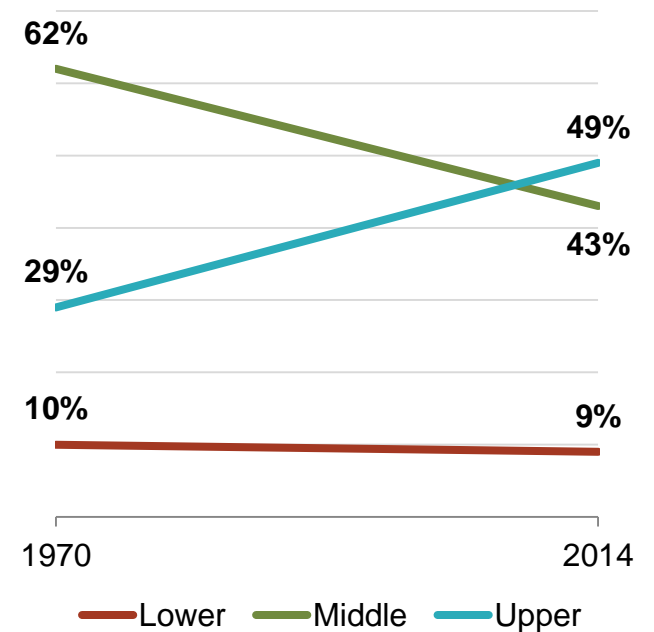
With generally flat incomes and a shrinking middle class, the real estate community has responded to demand at the top where the economics are more positive, even if the demand pool is also smaller.

Distribution of U.S. Households by Income Tier



Source: Pew Research Center

Aggregate U.S. Income by Income Tier



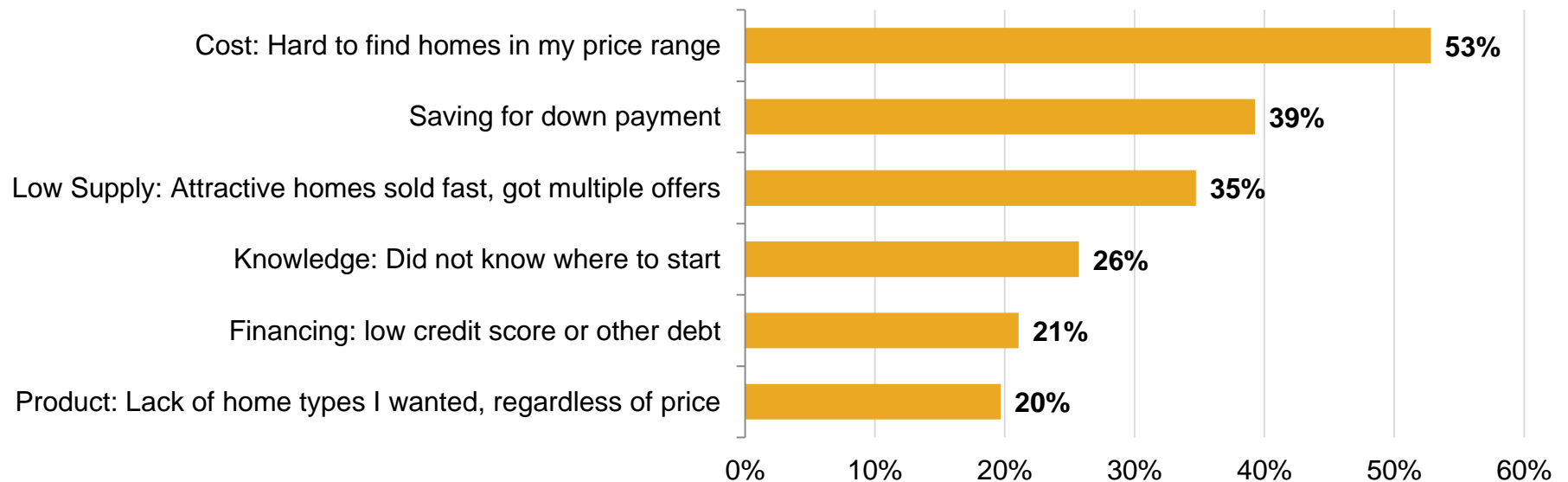
Source: Pew Research Center

FIRST-TIME BUYERS DOWN

In 2015, the share of first-time buyers dropped for the third straight year to 32%, the lowest level since 1987 and 8% below the long-term average of 40%.

The FHA has lowered lending premiums to bring in more borrowers, especially first-time buyers, but this won't solve the biggest problem: home prices.

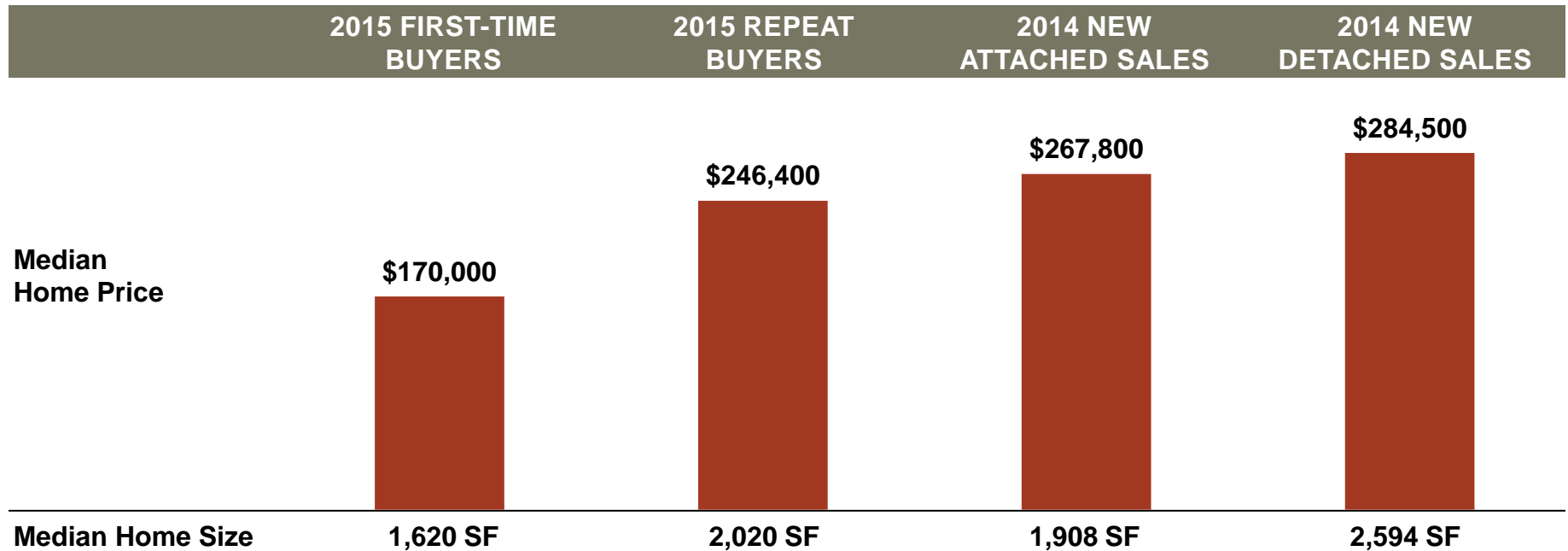
Deterrents to Purchasing A Home, According to Sample of 2014-2015 First-Time Buyers



Source: RCLCO December 2015 national survey of recent first-time homebuyers. N=1,077.

PRICED OUT OF NEW PRODUCT

For the average first-time buyer or even repeat buyer, new home prices are well beyond their reach:



Source: National Association of Realtors; U.S. Census Bureau Survey of Construction

WHAT IS “AFFORDABLE” FOR DENVER BUYERS?

\$300K-\$500K is the most common price range for new detached and attached homes in the Denver MSA. Based on income, only the upper half of “middle income” households can afford those prices.

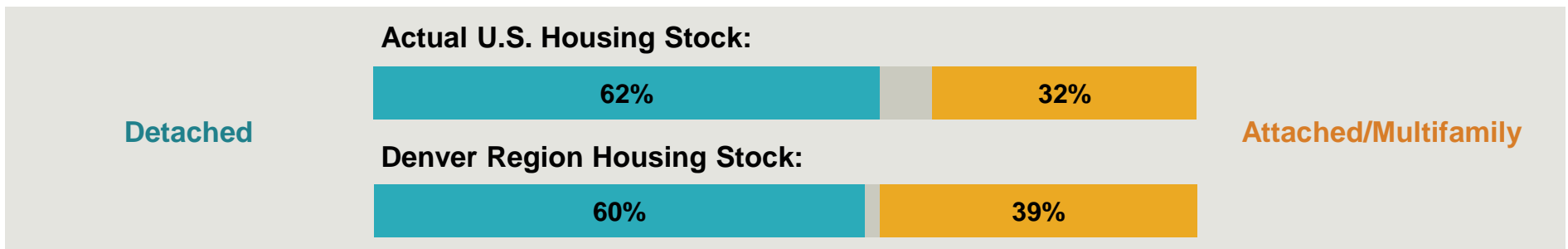
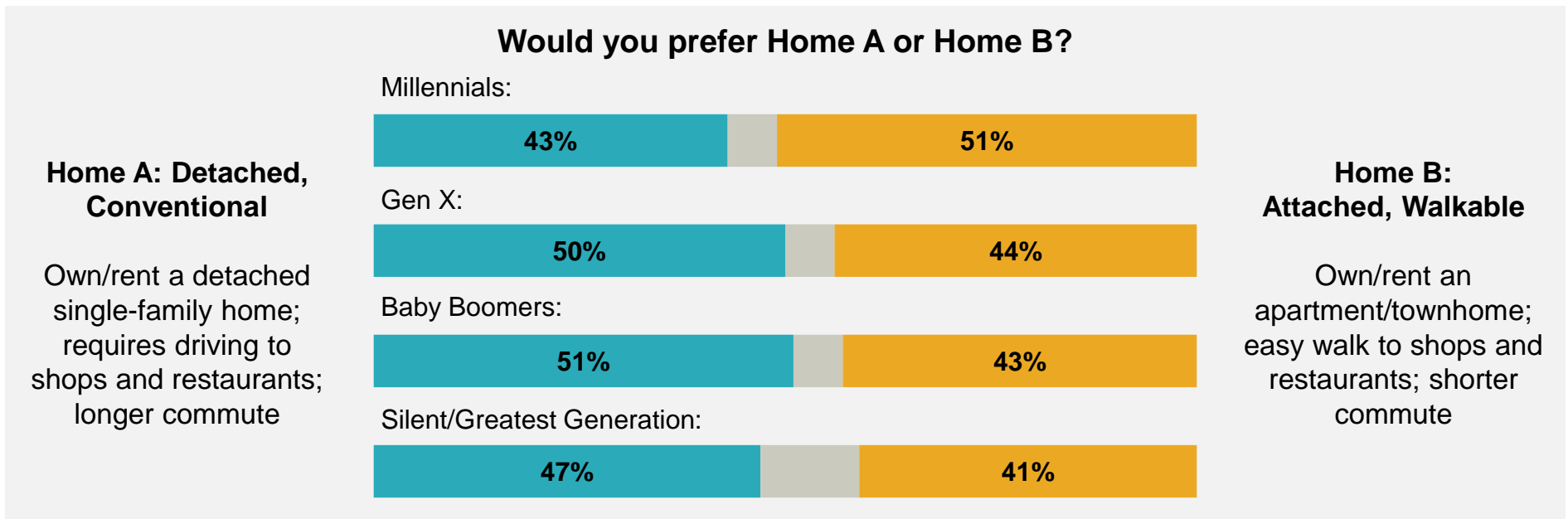
| | All Ages | 25-34 | 65-74 |
|-------------------------------------|-----------|-----------|-----------|
| Median Household Income | \$64,700 | \$54,600 | \$56,900 |
| Middle Class, Lower Bound | \$43,300 | \$36,600 | \$38,100 |
| Middle Class, Upper Bound | \$129,400 | \$109,200 | \$113,800 |
| Low Affordable Home Price | \$210,000 | \$180,000 | \$190,000 |
| Median Affordable Home Price | \$320,000 | \$270,000 | \$280,000 |
| High Affordable Home Price | \$530,000 | \$440,000 | \$460,000 |

Methodology: Defines the lower bound of the middle class as 67% of median income and the upper bound as 200% of median income. Home price based upon 30-year fixed-rate mortgage at 4.5% interest. Pricing assumes the lowest middle income households pay a down payment equal to 30% of their annual earnings, and 25% for the highest middle income households. Does not take number of people in household into account. Does not account for equity empty nester households likely have from their current home.

Source: Esri Business Analyst

CONVENTIONAL PRODUCT HOLDS LESS APPEAL

Current housing supply is more weighted toward detached housing than preferences would suggest. Millennials in particular prefer attached, walkable living.



Source: National Association of Realtors, 2015; U.S. Census Bureau

FAR-OUT LOCATIONS AREN'T HELPING

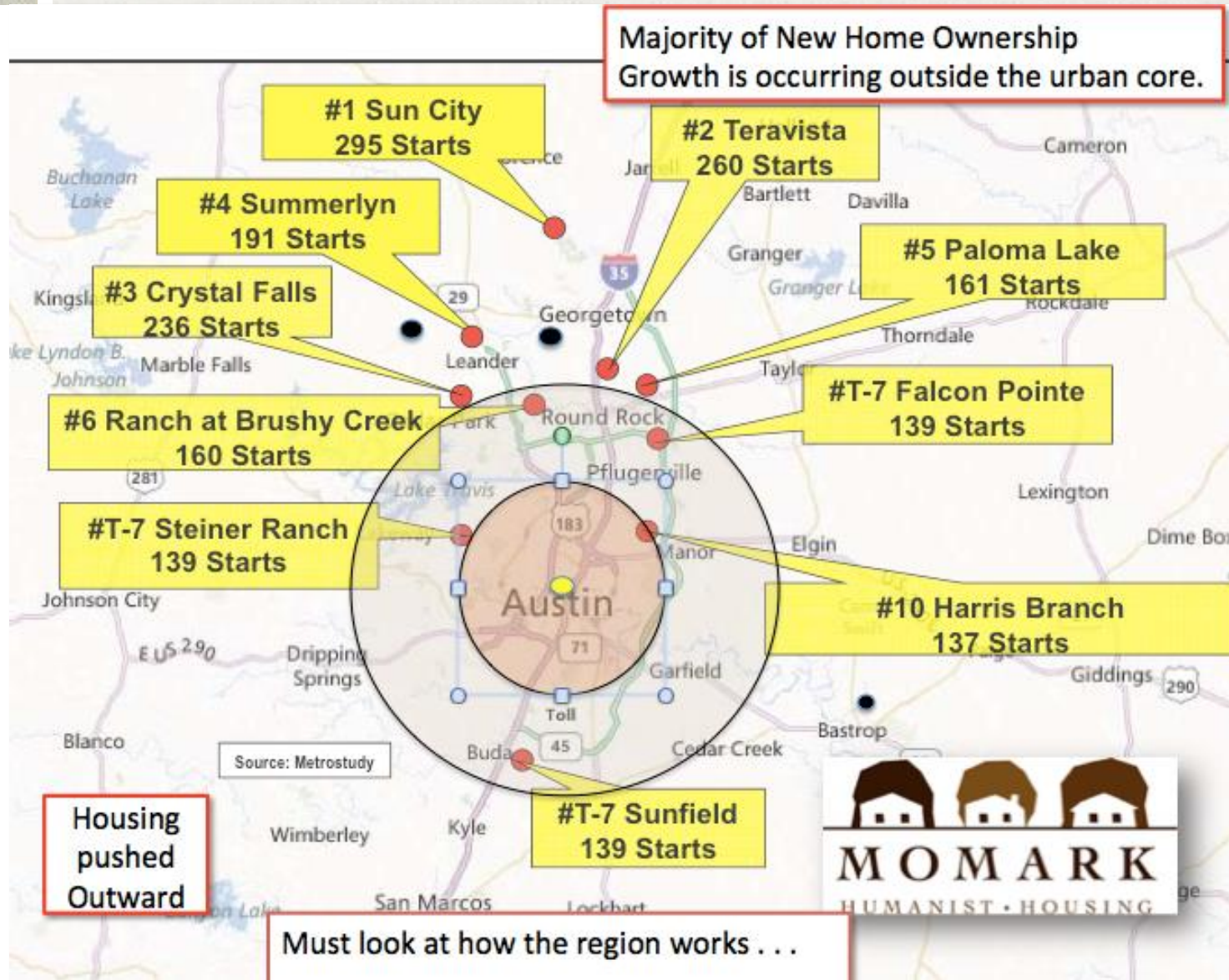
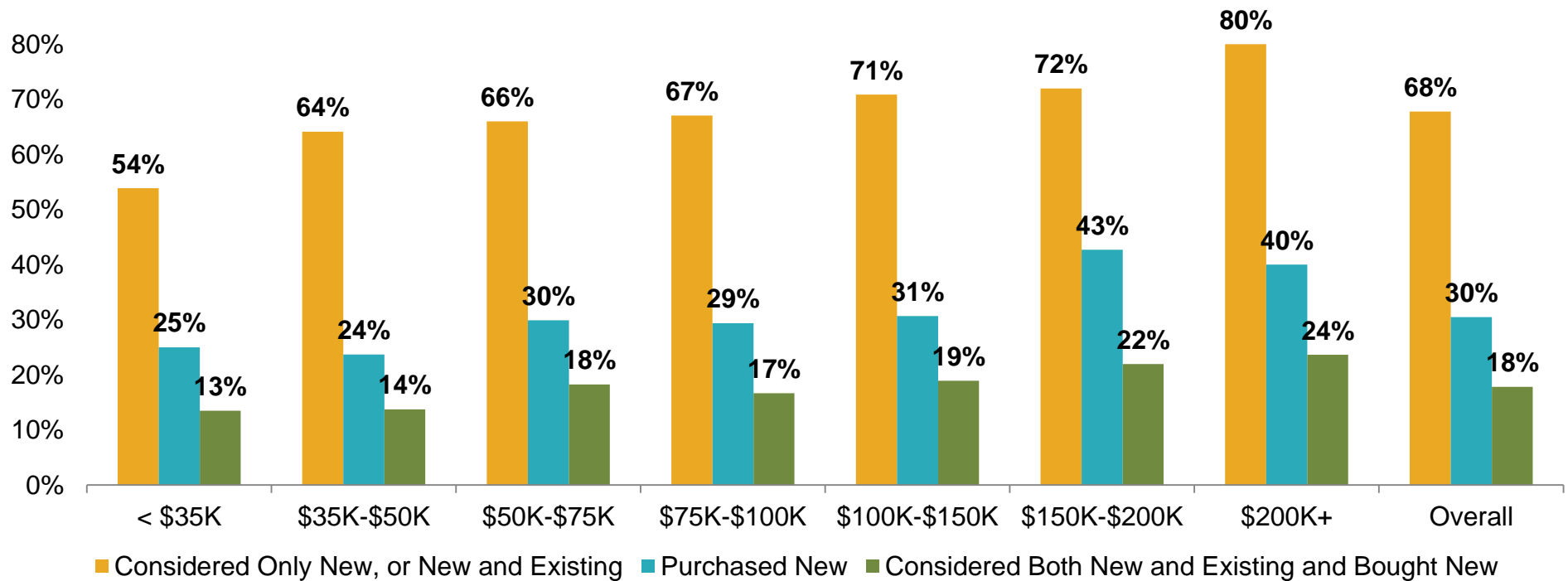


Image courtesy of Momark Development.

FEW FIRST-TIME BUYERS CONSIDERING NEW AND EXISTING HOMES BUY NEW

68% of recent first-time buyers considered new homes either exclusively or in addition to resale homes, but only 30% actually purchased new product. When buyers considered both new and existing homes in their search, they were even less likely to buy new (18%).

Consideration of New and Existing Homes by Income of First-Time Buyers



Source: RCLCO December 2015 national survey of recent first-time homebuyers. N=1,077.

THE RESULT IS UNMET DEMAND

Today's new housing supply tends toward small units in urban, midrise/high-rise multifamily buildings, or large, exurban single-family detached homes. This leaves key segments underserved because it does not offer them the **value** and/or **lifestyle** they seek.



Young families and first-time buyers: They are priced out of detached product, but want or need more space than an apartment or small condo. Location of new detached product may be too suburban for their preferred lifestyle.



Empty nesters: They want to downsize, but may not be ready to give up their front door, porch, garden, etc.



Low- and middle-income renters: They cannot afford the largely "luxury" product coming online today.

THERE IS A “MISSING MIDDLE” OF SCALE, PRICE

Missing middle housing is “a range of multi-unit or clustered housing types compatible in scale with single-family homes that... provides a solution to the mismatch between the available U.S. housing stock and shifting demographics combined with the growing demand for walkability.”



MissingMiddleHousing.com is powered by Opticos Design. Illustration © 2015 Opticos Design, Inc. 

Source: Opticos Design

As a **value** play:

- 16-50 units/acre
- Smaller unit sizes
- Simple construction (Type V)
- Lower parking ratios

As a **lifestyle** choice:

- Lower perceived density
- Walkable
- Can be integrated into various community contexts (as own neighborhood, as transition into mixed-use node, etc.)

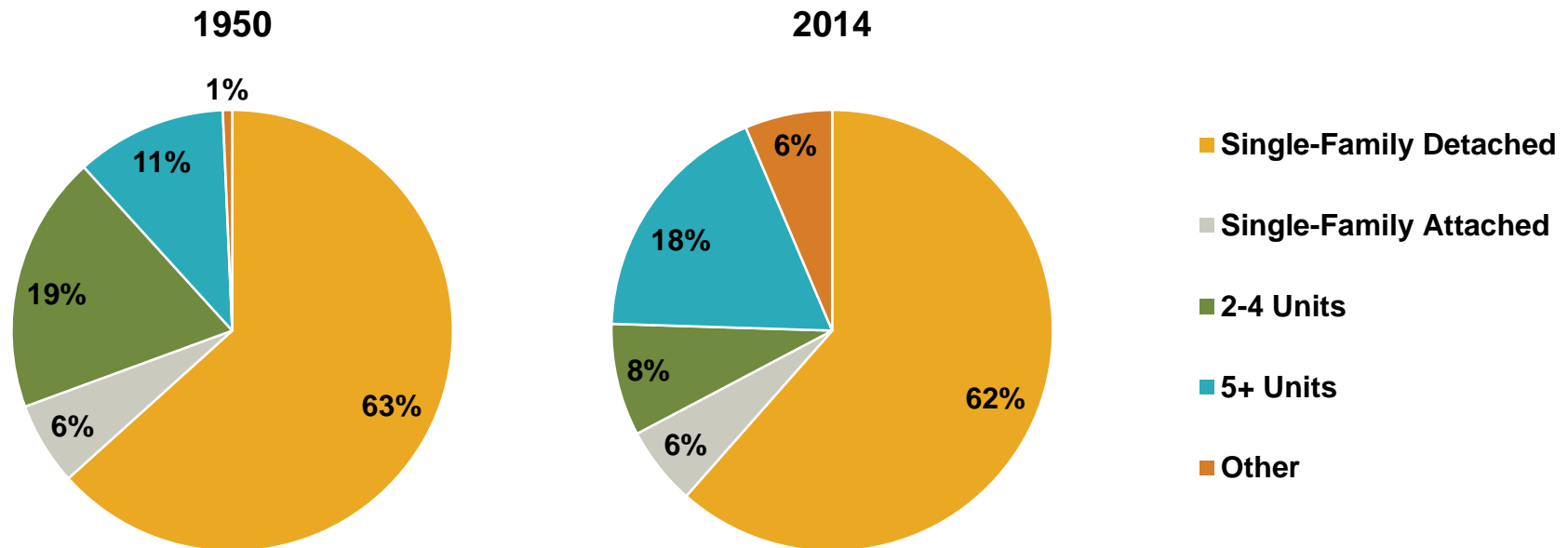
Appeals to...

- Young families
- First-time buyers
- Low- and middle-income buyers

- Empty nesters

MIDDLE PRODUCT LOST TO DENSE MULTIFAMILY

The share of attached and 2-4 unit structures has declined substantially (i.e., the “missing middle”), while the share of larger multifamily buildings has increased. The share of detached units has held fairly constant since the 1940s.



Source: U.S. Census Bureau. Note: “Other” includes mobile homes, RV, boats, etc.

Barriers include:

- Zoning regulations
- High land, labor, and materials costs
- Density is a dirty word
- Difficult to get financing for smaller projects, smaller developers
- Buyer expectations for housing type

What new communities are innovating to build more midpriced, midscaled housing?

CASE STUDY: DAYBREAK

Daybreak’s Creekside Village offers unconventional product types in addition to detached homes. These homes are smaller and less expensive but still achieve premiums on a \$/SF basis relative to the region and nearby conventional communities.

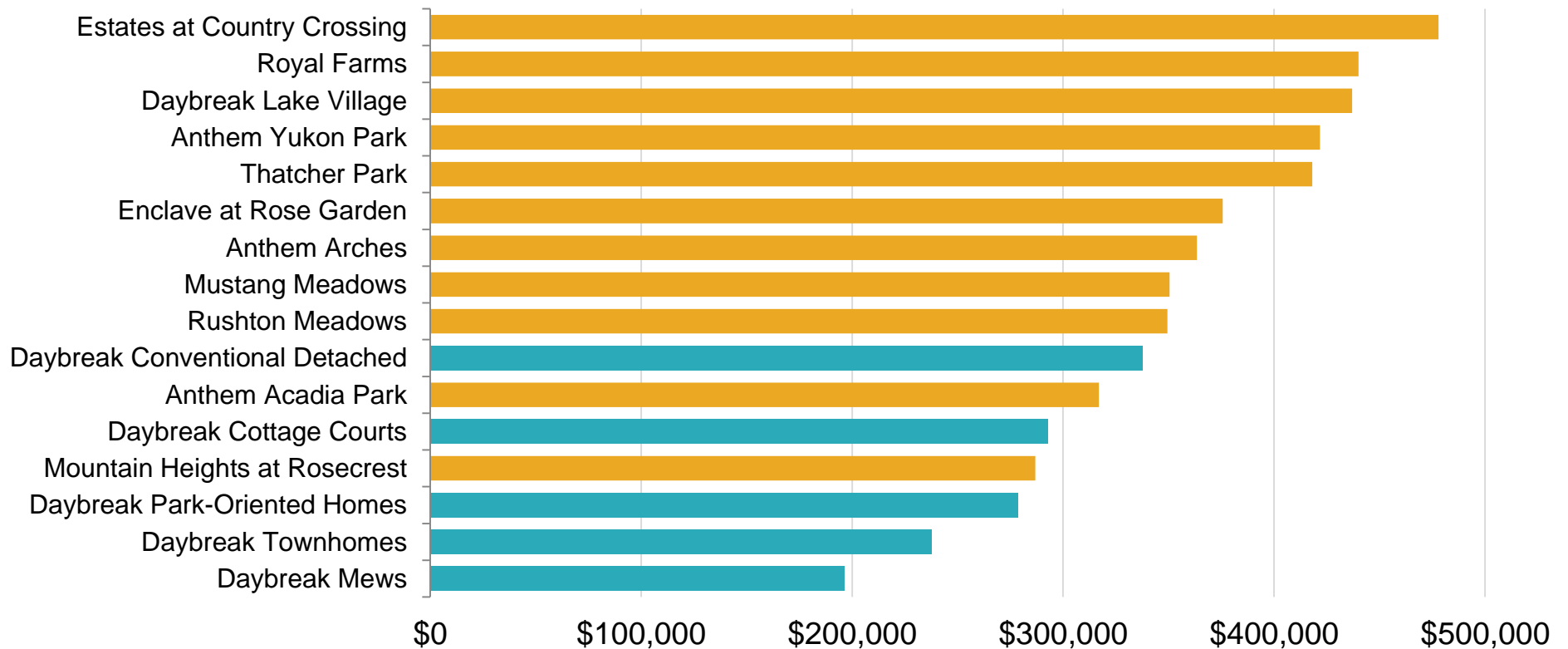
| Mews Townhomes | Townhomes | Cottage Court Homes | Homes Around Park | Dense Single-Family | Nearby Conventional |
|---|--|---|---|---|---------------------|
|  <p>MEWS TOWNHOMES HOLMES HOMES FROM THE HIGH \$100S</p> <p><i>Inspired by European living close to the light rail station and parks.</i></p> |  <p>LIGHT HOUSE TOWNHOMES HOLMES HOMES FROM THE LOW \$200S</p> <p><i>Ample outdoor entertaining with private patio and courtyard options.</i></p> |  <p>COTTAGE COURT HOMES DAVID WEEKLY HOMES FROM THE MID \$200'S</p> <p><i>Charming and cottage-y on the outside. Wide-open on the inside.</i></p> |  <p>PASEO HOMES IVORY HOMES FROM THE HIGH \$200'S</p> <p><i>With shared park spaces that are begging for a mini block party.</i></p> |  | |
| 15/acre | 11/acre | 6/acre | 4/acre | 4/acre | 3/acre |
| 1,099 SF | 1,808 SF | 1,561 SF | 1,673 SF | 2,014 SF | 3,000 SF |
| \$199,220 | \$237,100 | \$299,990 | \$282,429 | \$342,450 | \$385,000 |
| \$181/SF | \$131/SF | \$192/SF | \$169/SF | \$170/SF | \$145/SF |

Source: Daybreak website; New Homes Source; RCLCO. Density calculation does not include streets.

DAYBREAK OFFERS LIFESTYLE AND VALUE

Compared to nearby communities selling conventional detached new product, Daybreak’s Creekside Village is much more attainably priced. Pricing is more competitive on a \$/SF basis, so most of the savings is due to the smaller unit sizes.

Midpoint Pricing for Daybreak Creekside Village vs. Nearby Communities

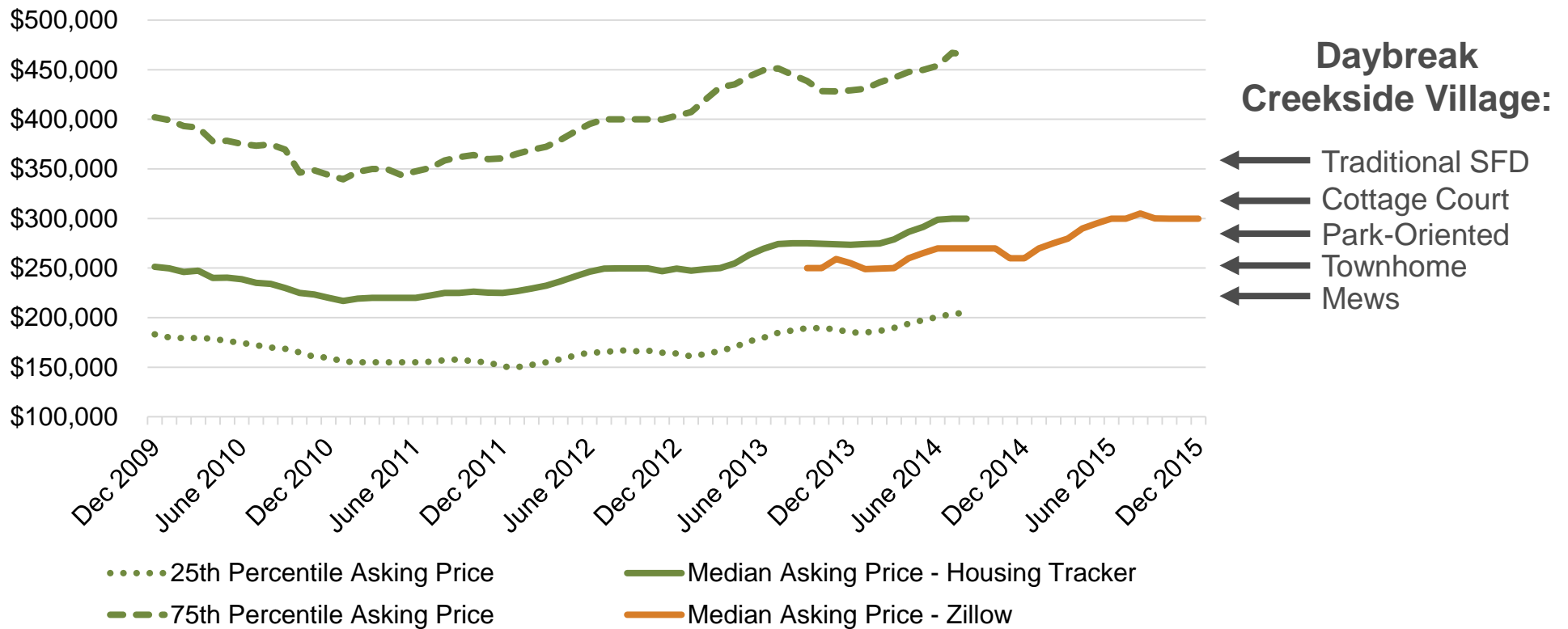


Source: Daybreak website; New Home Source

DAYBREAK PRICING EVEN COMPETITIVE WITH EXISTING PRODUCT

With the exception of the more traditional single-family products, Daybreak pricing is at or below median *resale* pricing for the region.

Resale Pricing in Salt Lake City



Source: Zillow Data; HousingTracker.net.

Note: Housing Tracker includes all single-family and condo units. Zillow includes all for-sale listings on Zillow.

THE SUPPLY SIDE VALUE PROPOSITION

The density inherent to “missing middle” product improves residual lot values relative to conventional single-family detached product.

| | Townhome | Conventional Detached |
|------------------------------------|------------------|-----------------------|
| Lot Size | 24 feet | 65 feet |
| Units/Acre | 12 | 3 |
| Unit Size, SF | 1,800 | 3,000 |
| Sale Price | \$405,000 | \$675,000 |
| Sales per GSF, Net Sales Costs | \$216 | \$216 |
| Hard & Soft Costs + Profit per GSF | \$207 | \$206 |
| RLV per Unit | \$15,800 | \$29,700 |
| RLV per Acre | \$189,000 | \$89,000 |

Source: RCLCO model

If developers do not deliver more attainably priced product, they may miss out on major opportunities coming down the pike:

- The median age of first-time buyers is 31, and the largest Millennial cohort is just now approaching their mid-20s. In the next five years, they will be a large potential buyer pool.
- The recession delayed older Millennials' ability to buy their first home, but our analyses suggest that they also do not want to rent forever. In the next five years, more of them will be able to finally afford homeownership.
- As more and more Baby Boomers enter retirement, they will consider their move-down options. An RCLCO poll of Boomers with incomes of \$75K+ found that 25% reported they were "90% likely" to move in the next 5 years.

DISCLAIMER

Reasonable efforts have been made to ensure that the data contained in this presentation reflect accurate and timely information, and the data are believed to be reliable and comprehensive. Our conclusions are based on estimates, assumptions, and other information developed by RCLCO from its independent research effort and general knowledge of the industry. This presentation contains opinions that represent our view of reasonable expectations at this particular time, but our opinions are not offered as predictions or assurances that particular events will occur.

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