

RCLCO

Key Real Estate Trends Driving the Market



ULI South Carolina Capital Markets Conference

Wednesday, September 7, 2016

9:00 AM



GADI KAUFMANN

MANAGING DIRECTOR / CEO

(310) 203-3033

gkaufmann@rclco.com

EDUCATION

UCLA; BA, Economics

AFFILIATIONS

Urban Land Institute (ULI)
UCLA Ziman Center for Real Estate
UCLA Luskin School of Public Affairs
Pension Real Estate Association (PREA)
Young Presidents' Organization (YPO)

Gadi Kaufmann is Managing Director and CEO of RCLCO (Robert Charles Lesser & Co.), a premier end-to-end solutions provider in the real estate sector around the world. The firm offers entity- and portfolio-level strategy planning, economic and market analysis advisory work, due diligence and underwriting services, workouts and restructuring work, turnkey development management services, and transaction services.

Gadi joined RCLCO in 1979. He specializes in economic consulting for real estate projects and portfolios; in corporate strategy planning and management consulting at the enterprise level; in transactional and negotiation services; and in financing and capital formation strategy formulation and implementation.

INTRODUCTION TO RCLCO

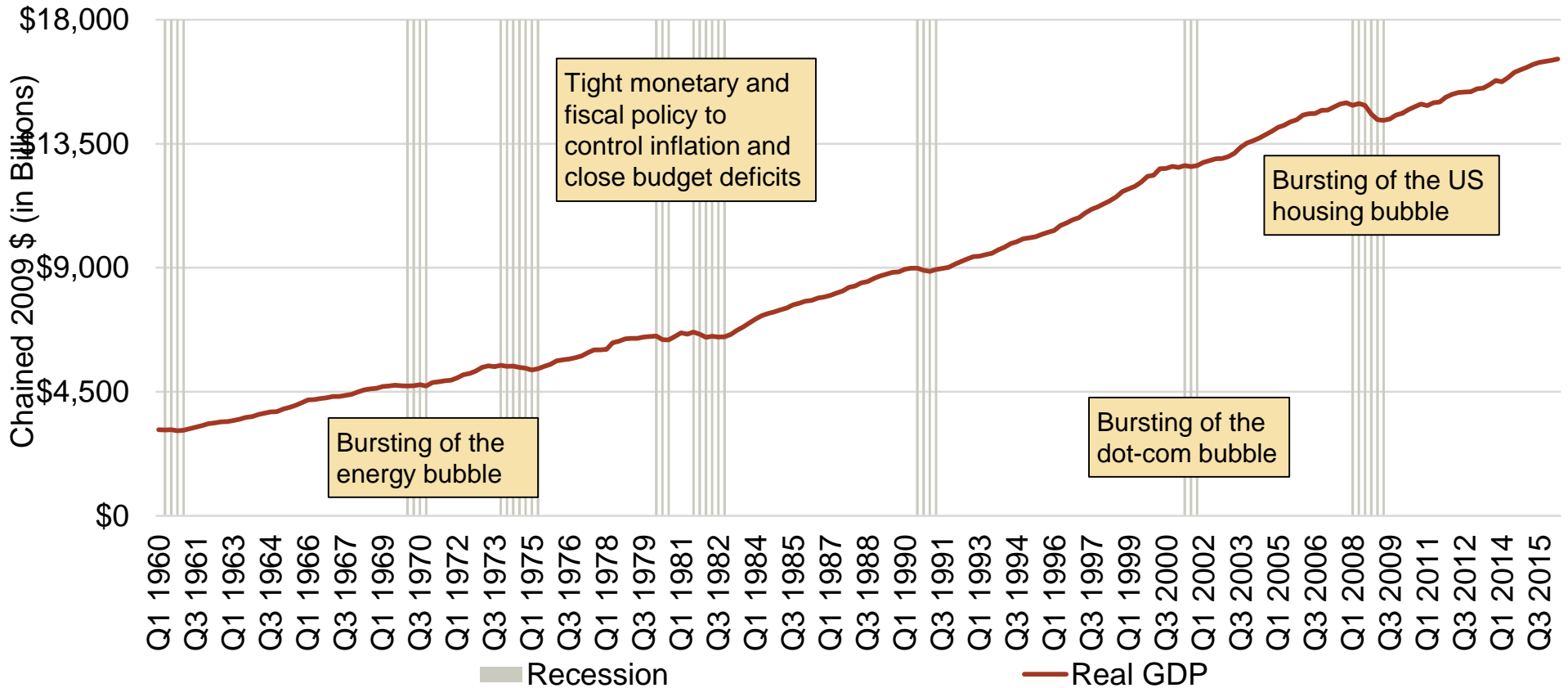
- RCLCO's mission is to add value to our clients by helping them make **strategic, effective and enduring decisions about real estate**.
- RCLCO provides **real estate economics, strategic planning, management consulting, and implementation services** to real estate investors, developers, financial institutions, public agencies, and anchor institutions.
- Headquartered in the Washington, D.C. area, with offices in California, Florida, and Texas.



THE U.S. REAL ESTATE CYCLE: A SNAPSHOT

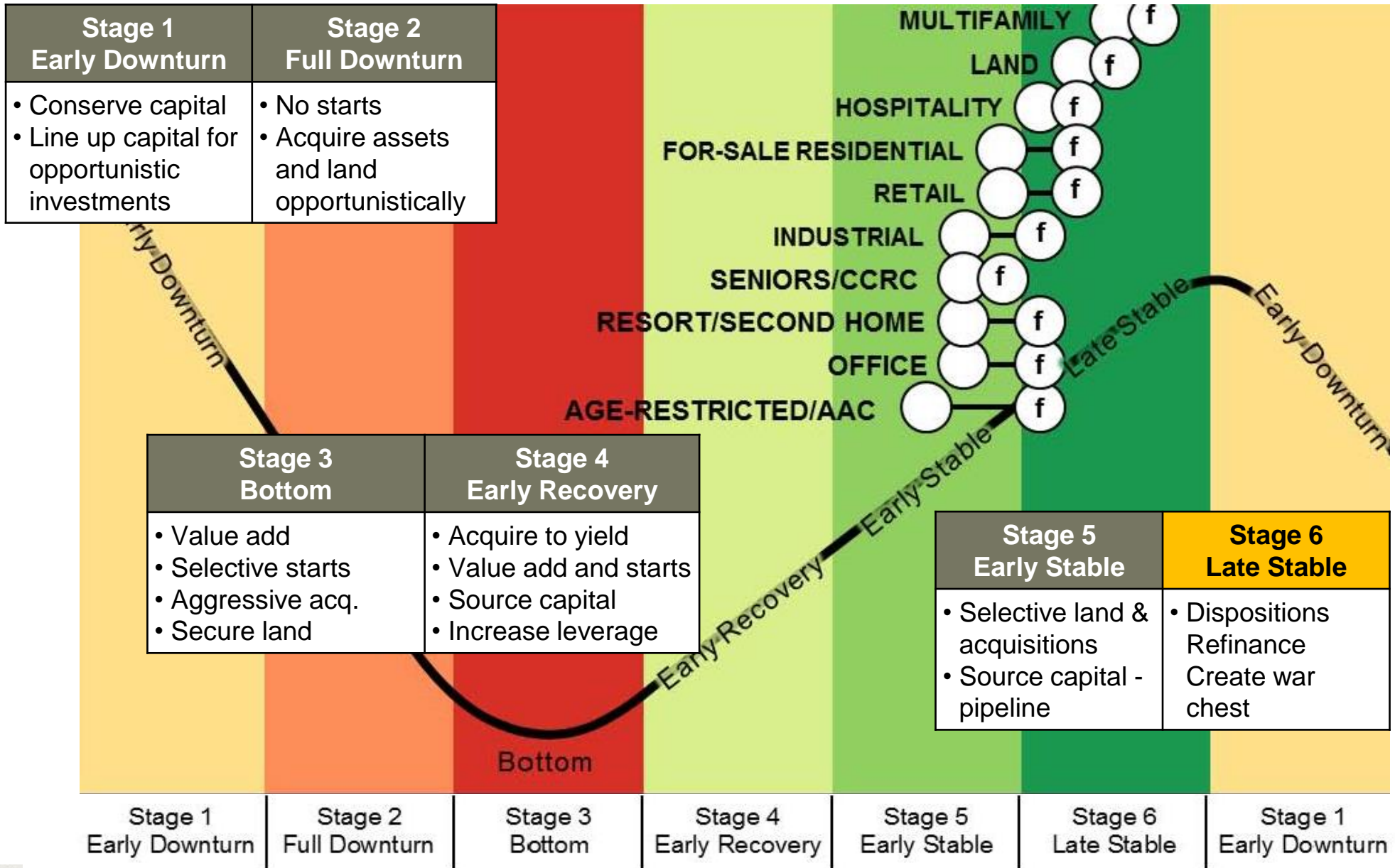
THE CURRENT CYCLE IS QUITE LONG (86 MONTHS)

- 50% likelihood of economic downturn in 2018
- Expect a relatively mild downturn, not concentrated in property market



Source: Federal Reserve Bank of St. Louis

HOW WE THINK ABOUT CYCLES (6-24 MOS/STAGE)





HOW WE THINK ABOUT REAL ESTATE

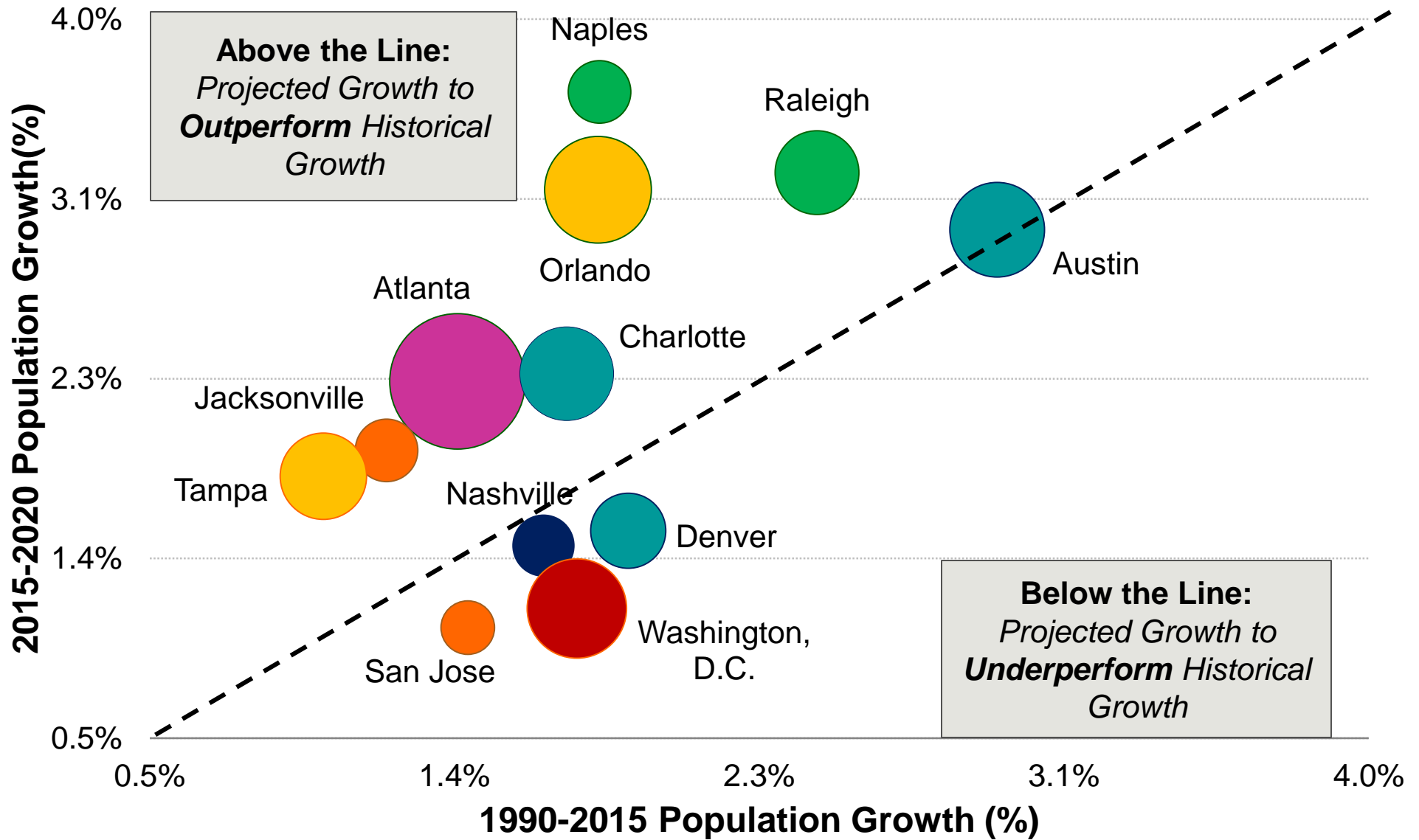
- Where people live (all forms of housing, self storage, healthcare, hospitality)
- Where people work (office, industrial)
- Where people shop (all forms of retail, logistics)
- Institutions (education, government)

- Where people live, then where people shop, then where people work
- High employment growth markets, STEM locations, protected sub-markets
- Relationship to replacement cost
- Timing – economic and real estate market cycles, product cycles, demographics, and innovation

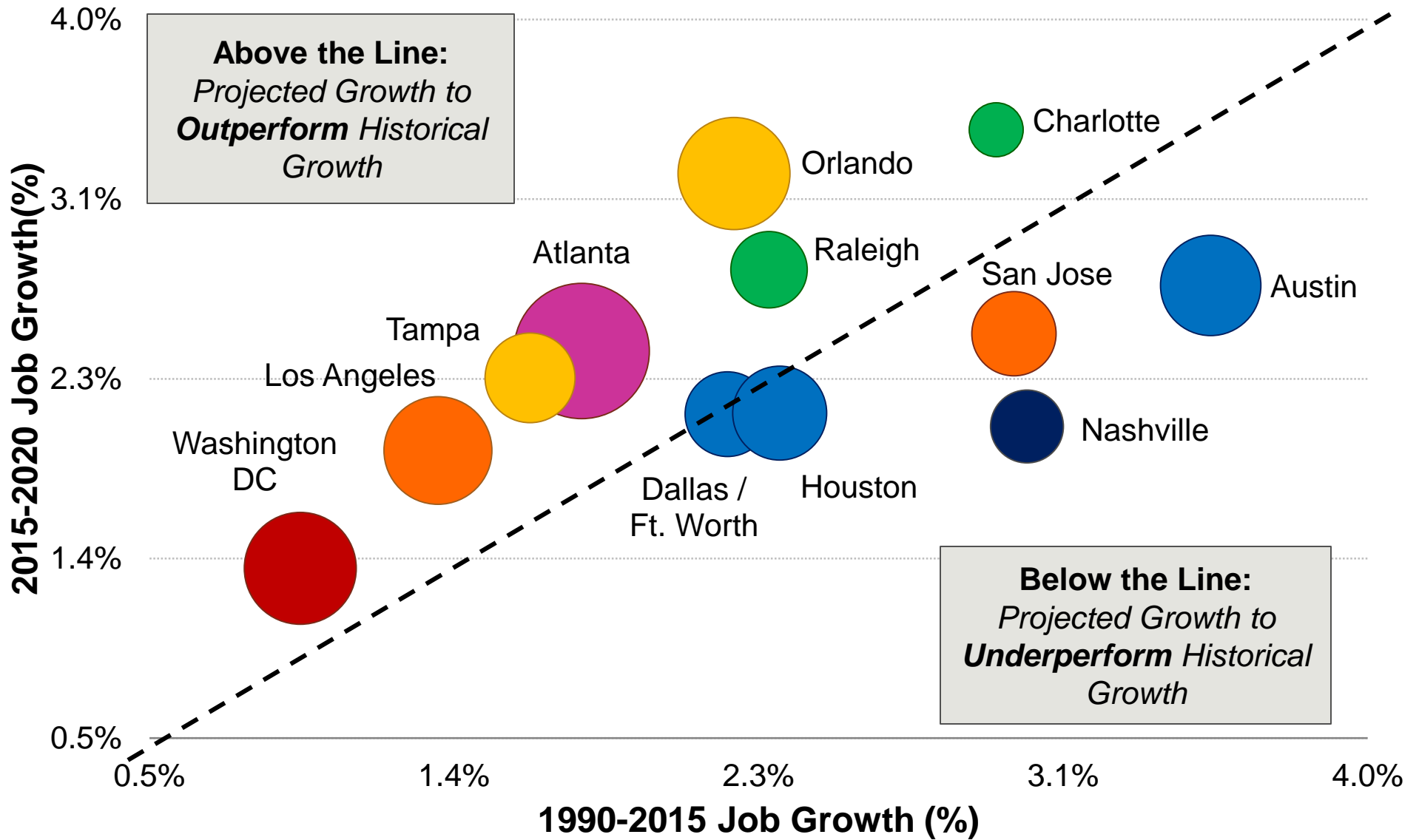
HOUSING MARKET FUNDAMENTALS

- The paradigm is shifting - "housing company" model (vs. homebuilder, multifamily developer, land developer, etc.)
- There may be too many players in the housing business
- Customer knowledge and marketing are becoming the keys to success
- The housing business is overly fragmented
- The big will get bigger
- Access to land drives strategy
- Capital markets evolving
- The opportunity set for pure-play land developers is shrinking
- The large scale MPC model is rarely viable financially
- The entry-level segment - myth or reality?
- Watch for the disruptors

POPULATION GROWTH SURGES IN SUNBELT

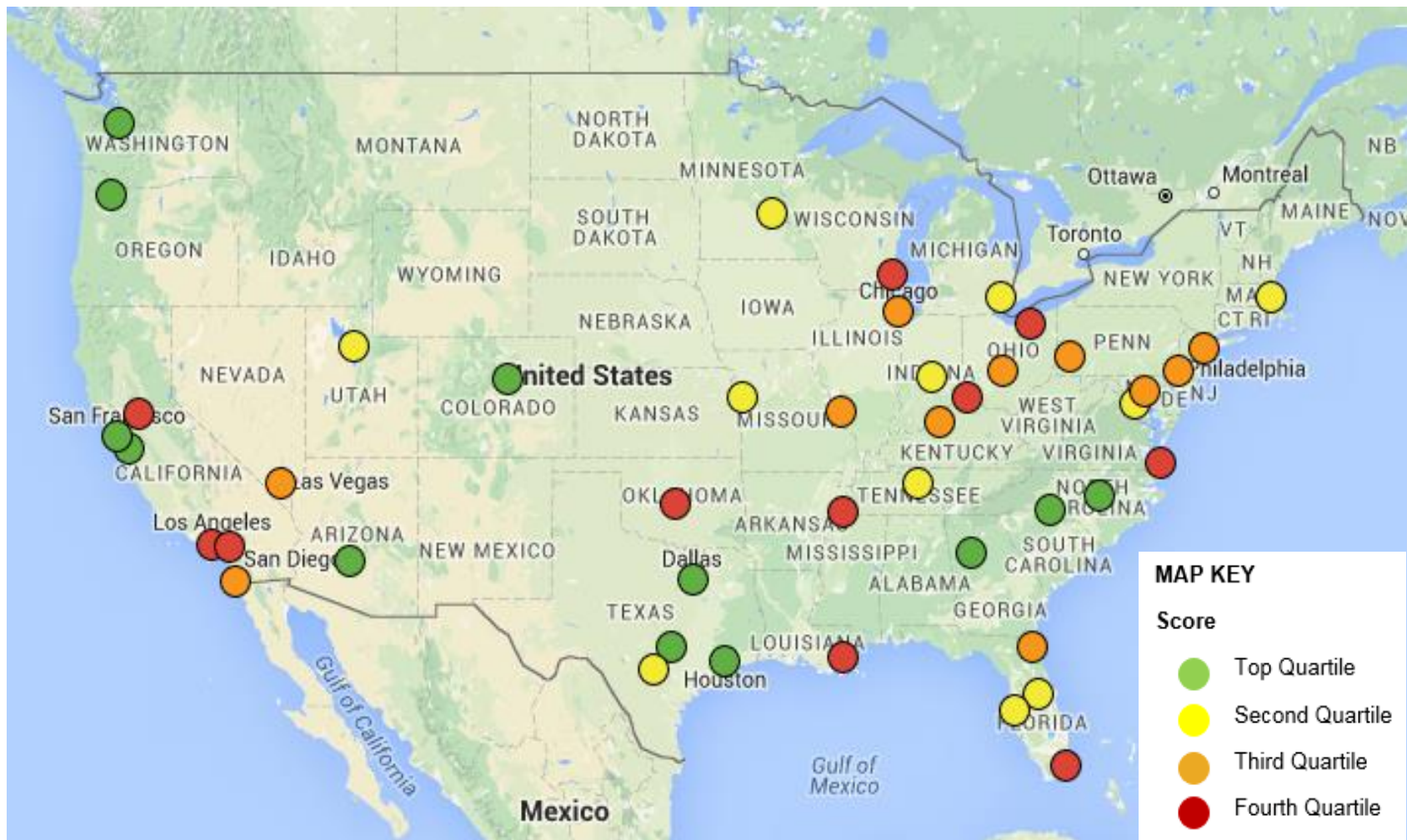


EMPLOYMENT GROWTH FOLLOWS



STEM EMPLOYMENT HOT SPOTS

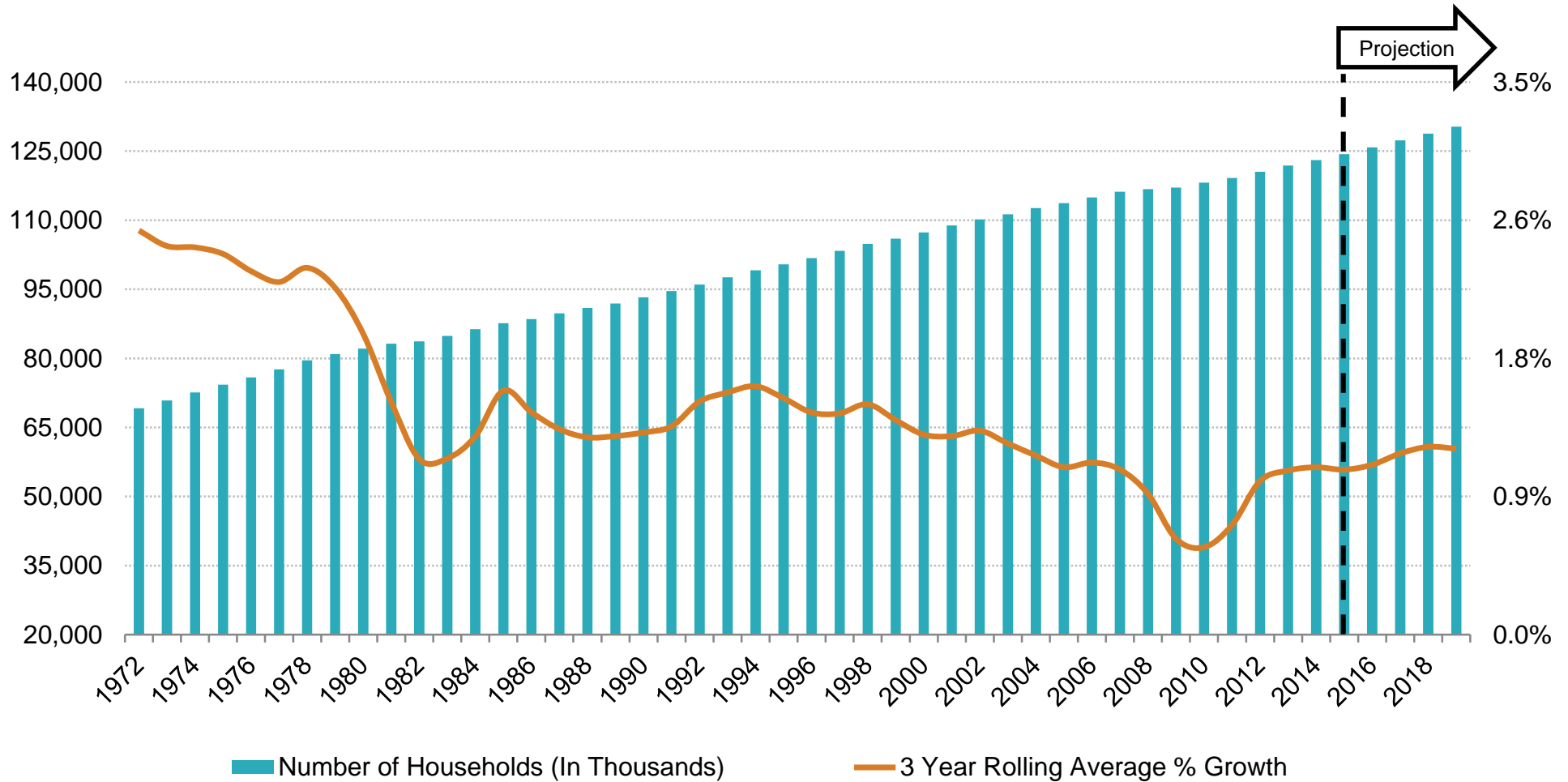
- Affordable Sunbelt, Midwest cities are benefitting from STEM employment growth, including Atlanta, Raleigh, and Charlotte



Source: RCLCO; CapRidge

HOUSEHOLDS RESUMED GROWTH

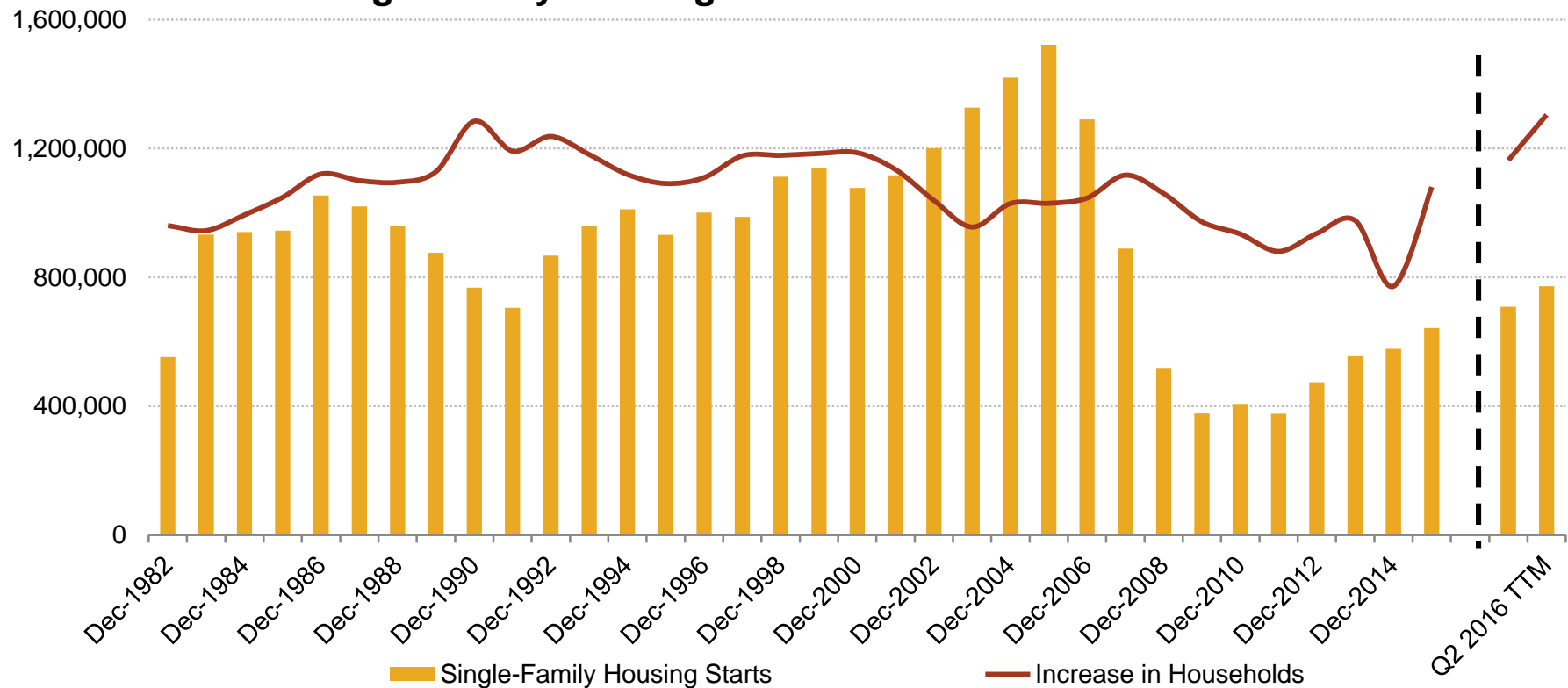
- Household formation rates dropped during the Great Recession
- Improved economic conditions contributed to boosting of household growth



Source: Moody's Analytics

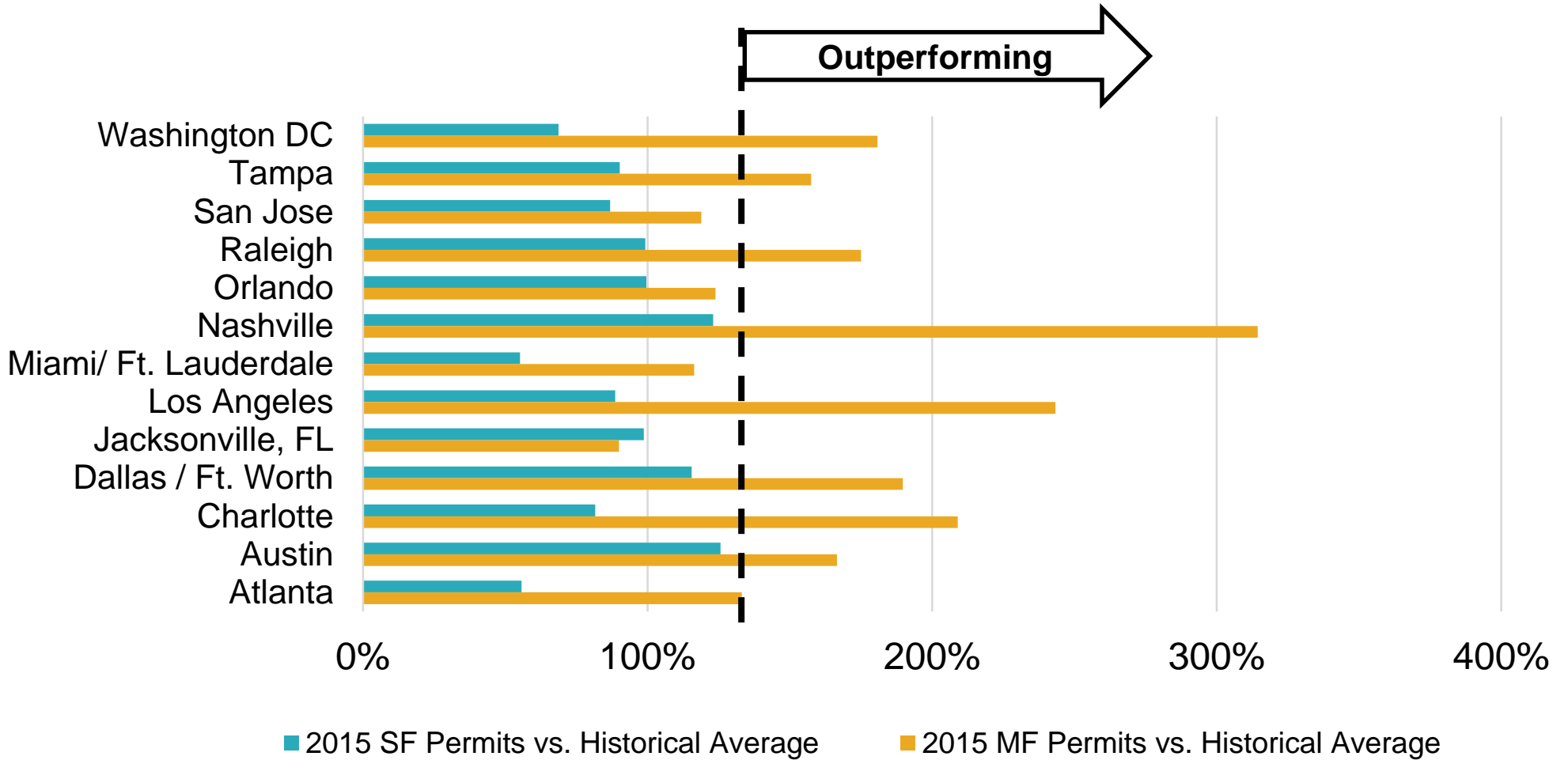
- The 2016 pace of SF starts and household growth are well above 2015 levels
- Expect continued growth as millennials and boomers impact the market
- Multifamily rentals still in shortage in select markets and locations

Single-Family Housing Starts and Household Growth



Note: Single-Family Housing Starts include single-family detached and single-family attached (townhomes)
 Source: Moody's Analytics; RCLCO

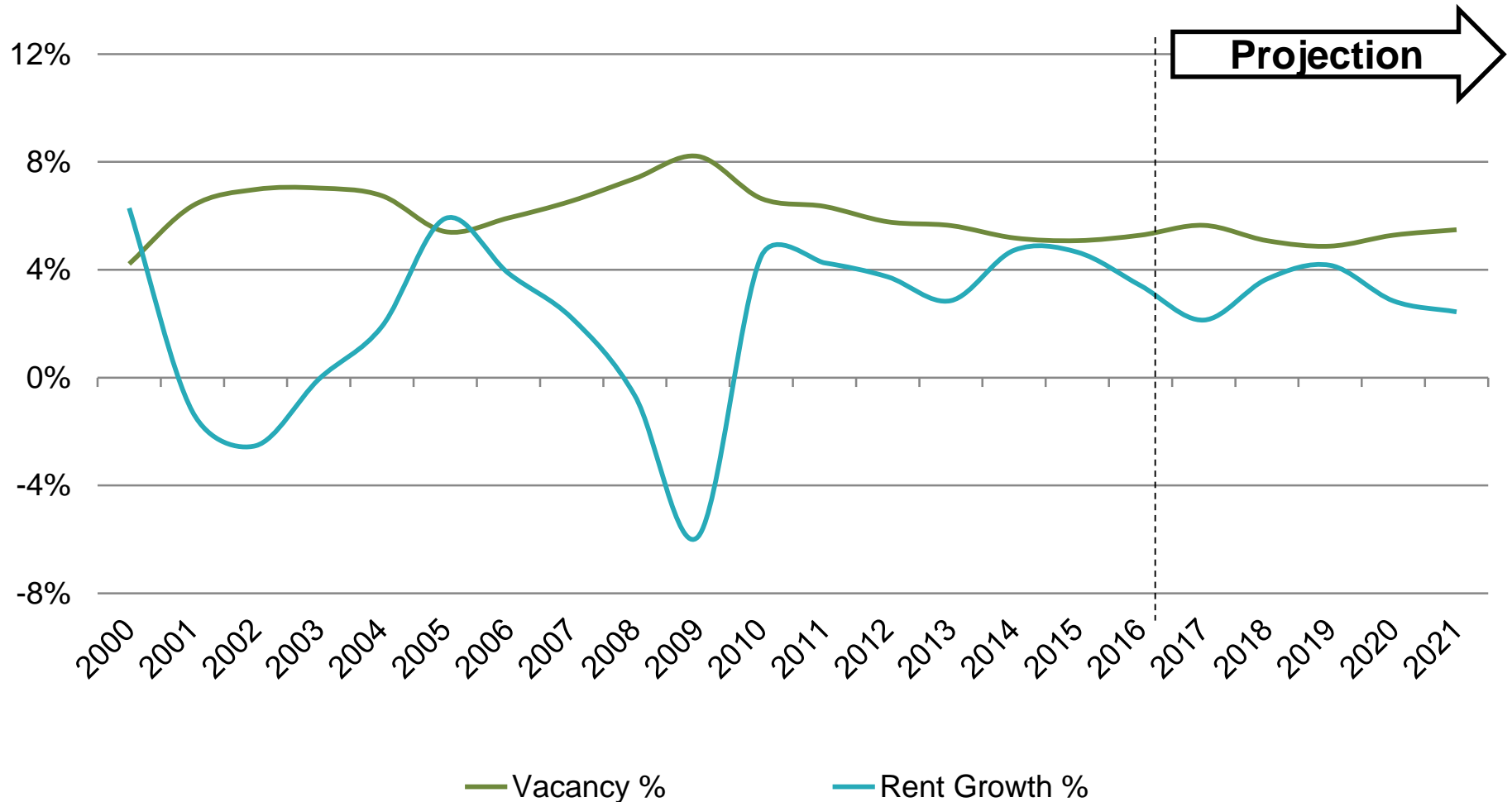
MULTIFAMILY PERMITS EXCEED HISTORICAL PACE, WHILE SINGLE-FAMILY LAGS



Source: Moody's Analytics

RENT GROWTH CONTINUES DESPITE NEW SUPPLY

- Absorption and occupancy will level out in the near-term as more millennials transition to for-sale housing in the face of a rising multifamily pipeline

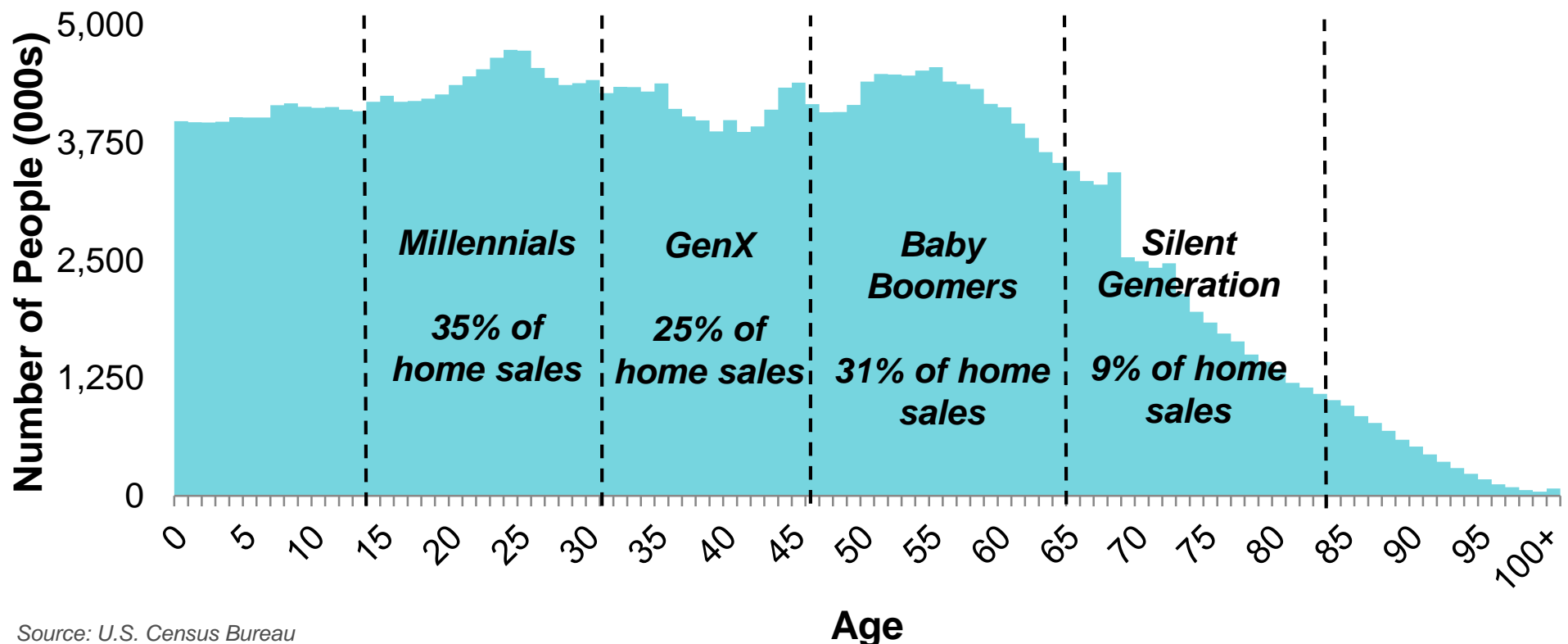


Source: Axiometrics

DEMOGRAPHICS AND HOUSING : A SHIFTING LANDSCAPE

MILLENNIALS & BOOMERS DRIVE HOUSING MARKET

- ✓ **Millennials:** 24% of population; **35% of home purchases**, but characterized by the “**Great Delay**” - lower headship rates, delayed marriage, and delayed childbirth.
- ✓ **Baby Boomers:** 23% of population; responsible for 31% of home purchases. **Aging but not retiring**; characterized by the **highest spending power**.



Source: U.S. Census Bureau



HOUSING NEEDS SHIFT AS GENERATIONS MOVE THROUGH LIFE STAGES

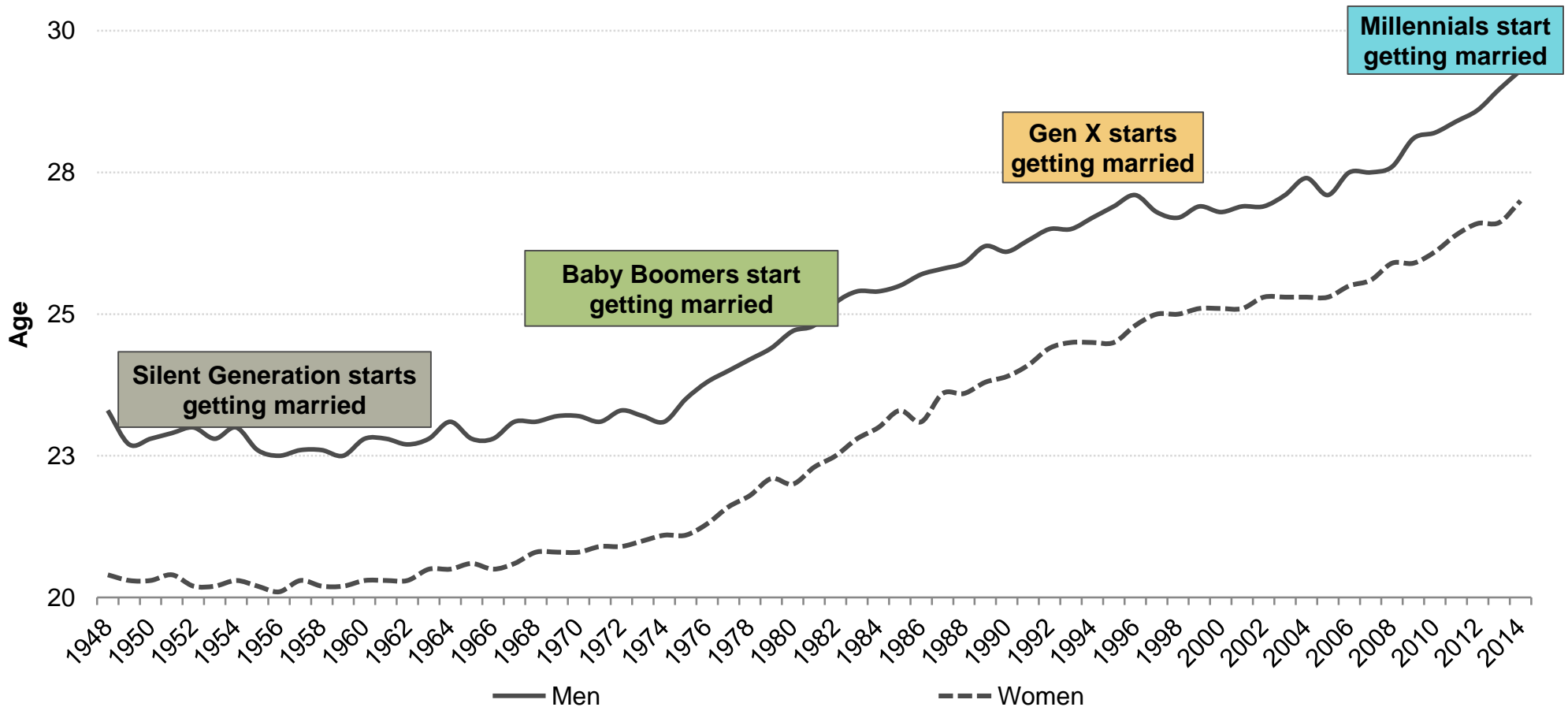
- Millennials will become primary buyers of entry-level, move-up for-sale housing
- Gen X will begin moving into vacation / 2nd home market
- Boomers will likely downsize as they plan for retirement retirement housing

HOUSING NEEDS:	2016	2021	2026
Student Rentals	Millennials	Gen Z / Millennials	Gen Z
Single/Roommate Rentals	Millennials	Millennials	Gen Z / Millennials
Young Couple Rentals	Millennials	Millennials	Gen Z / Millennials
Buy Entry Level	Gen X / Millennials	Millennials	Millennials
Buy Upgrade / Move-Up Home	Gen X / Baby Boomers	Gen X / Baby Boomers / Millennials	Millennials / Gen X
Buy 2nd Home	Gen X / Baby Boomers	Gen X / Baby Boomers	Millennials / Gen X
Buy Empty Nester Home	Baby Boomers	Gen X / Baby Boomers	Gen X / Baby Boomers
Buy Retirement Housing	Baby Boomers / Silents	Baby Boomers	Baby Boomers

THE YOUNG HOMEBUYER'S PROBLEM

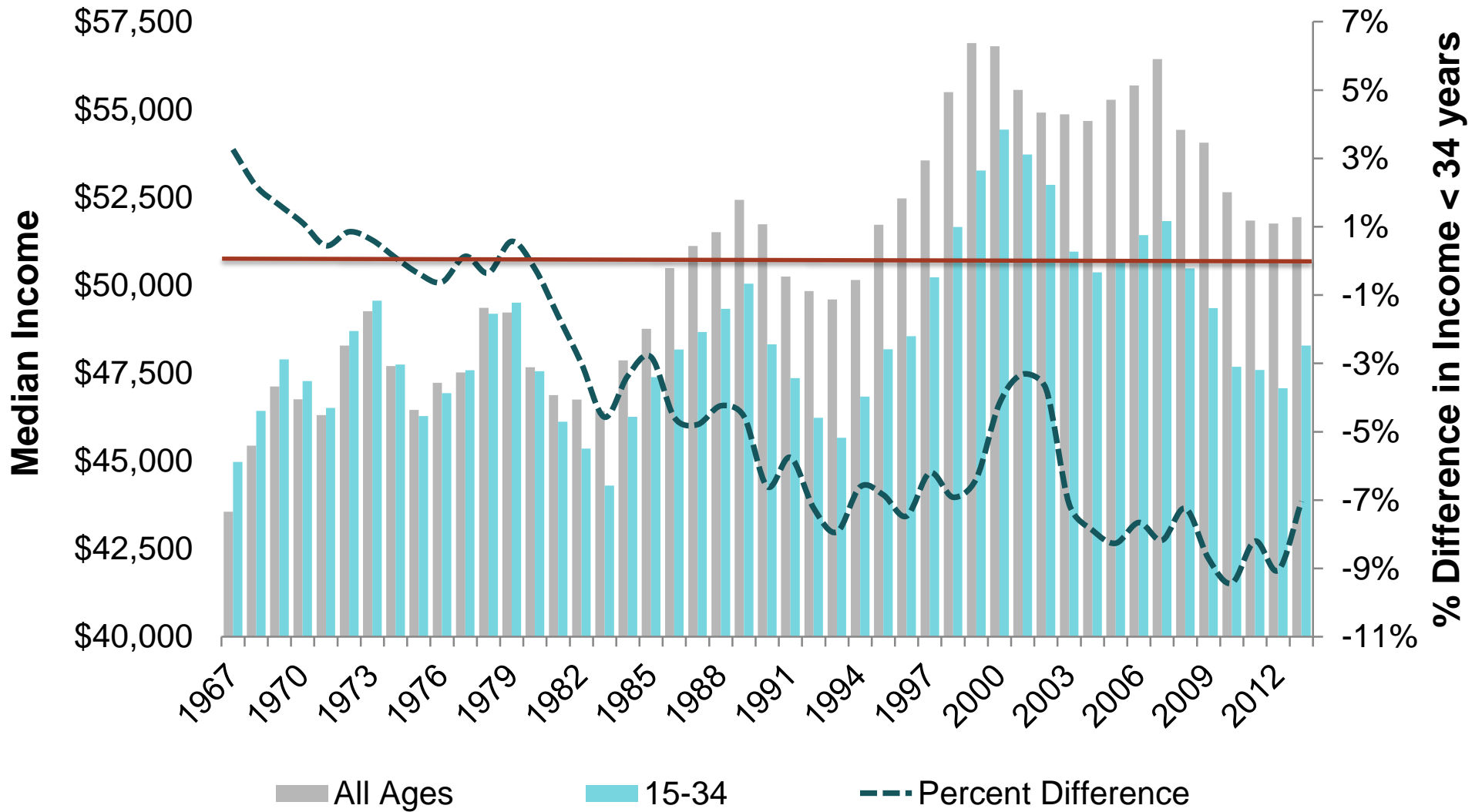
“GREAT DELAY” IN HOUSEHOLD FORMATION WILL NOT LAST FOREVER

Millennials are getting married and buying home later than previous generations. However, they will have children at historic rates, later in life, which will create need for family housing.



Source: US Census PUMS; RCLCO

MEDIAN INCOME OF YOUNG ADULTS



Source: Moody's Analytics

- Millennial, Boomers and Gen X buyers are largely choosing the suburbs
- Walkable suburban areas with mix of housing, retail appeal to all groups

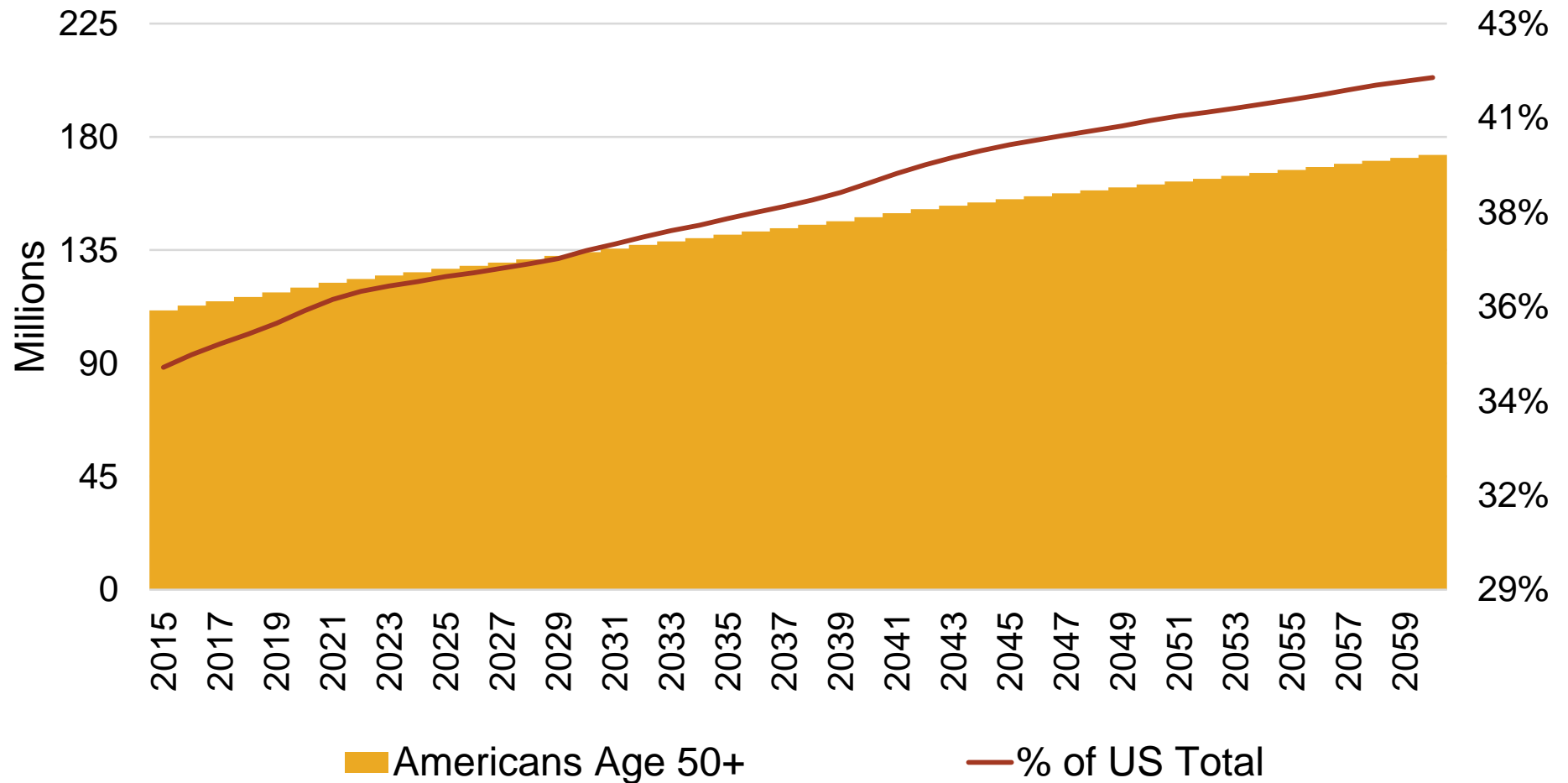
Preference of Home Location of Millennial Renters vs. Owners



Source: RCLCO 2016 Survey

BABY BOOMERS: WHAT'S COMING?

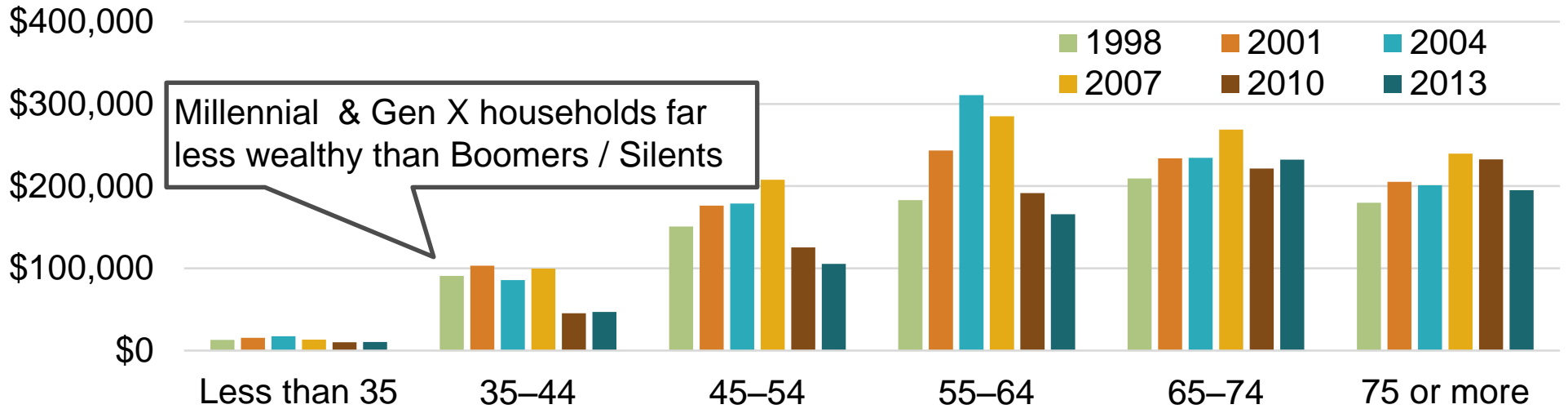
Number of American Adults Aged 50+, 2015 – 2060



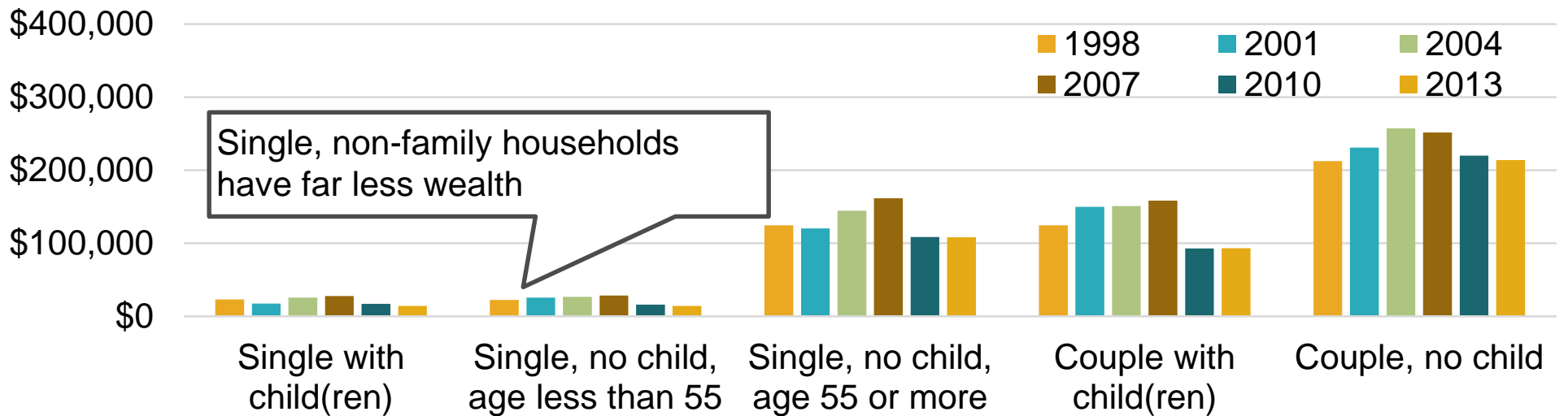
Source: US Census

WEALTH CONCENTRATED AMONG OLDER HOUSEHOLDS

Median Net Worth by Age



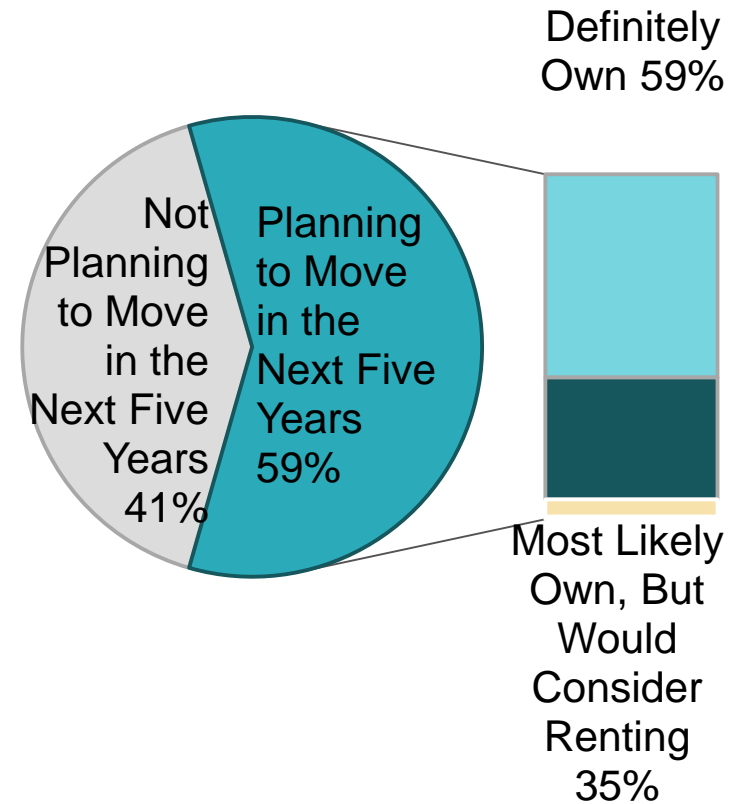
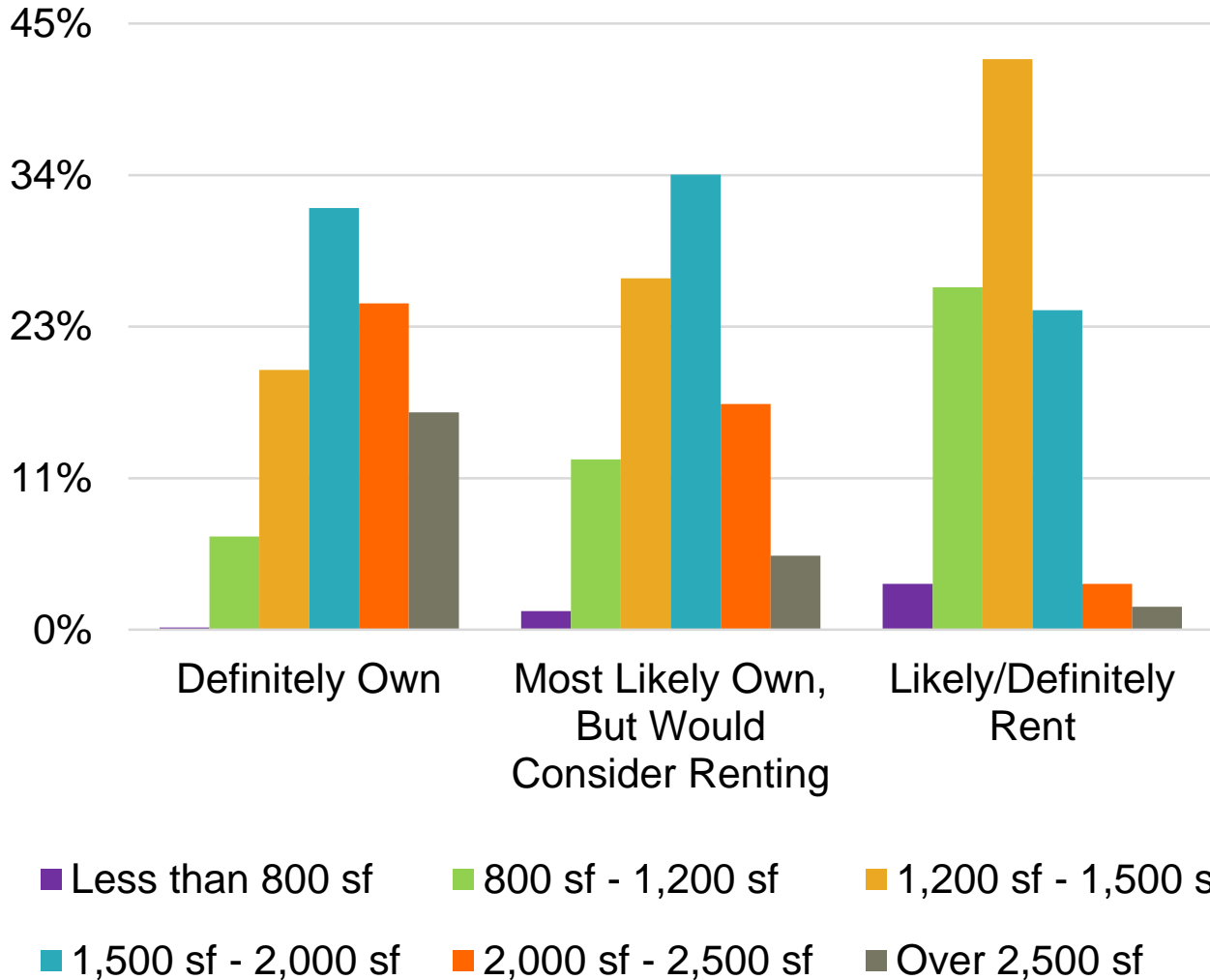
Median Net Worth by Life Stage



59% OF BOOMERS MOVING WITHIN 5 YEARS AND ARE CONSIDERING DOWNSIZING OR EVEN RENTING (35%)

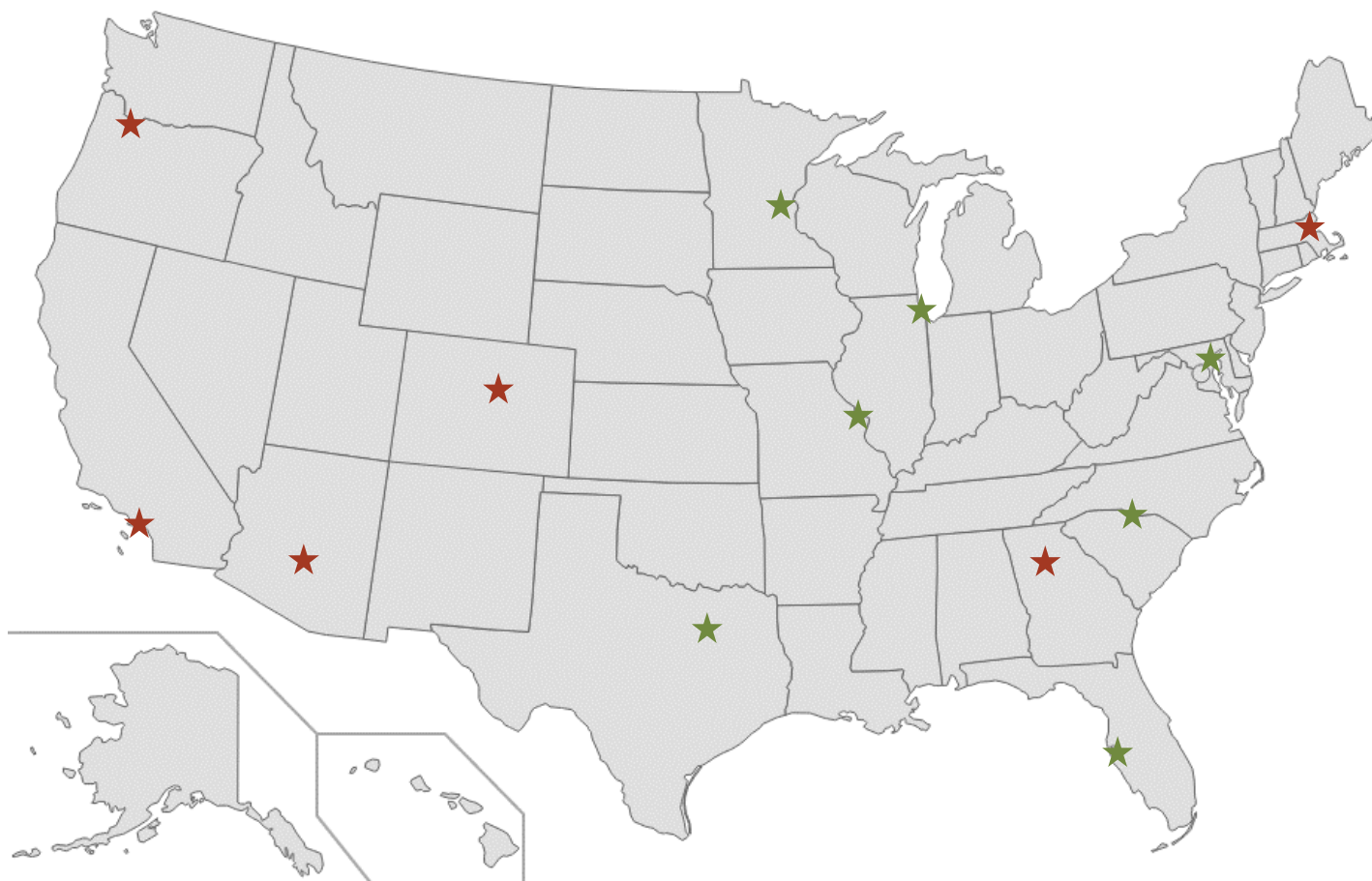
Many Empty Nesters desire to live in homes that are smaller than their current homes, as shown below.

Plus, many plan to move over near-term.



Source: RCLCO 2016 Survey

WHERE WILL EMPTY NESTERS RENT?



- **High Interest:**
 - **Charlotte, NC (78%)**
 - **Minneapolis, MN (71%)**
 - **Tampa, FL (60%)**
 - **Baltimore, MD (56%)**
 - **St. Louis, MO (54%)**
 - **DFW, TX (48%)**
 - **Chicago, IL (46%)**

Low Interest:

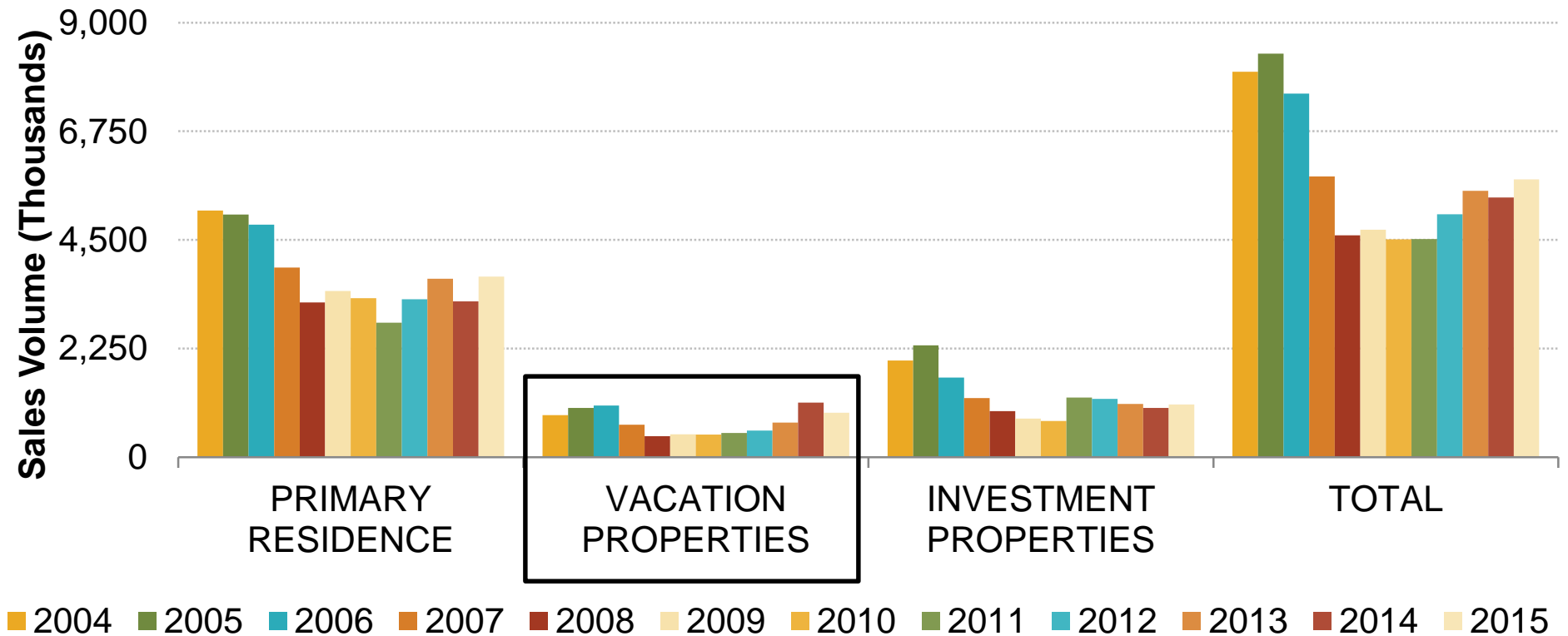
- **Denver, CO (8%)**
 - **Portland, OR (23%)**
 - **Boston, MA (29%)**
 - **Phoenix, AZ (31%)**
 - **Atlanta, GA (33%)**
 - **Los Angeles, CA (35%)**
- **US Average 41%**

Source: RCLCO

VACATION HOMES

- Vacation property transactions have nearly doubled since the bottom of the Great Recession
- GenX and Millennials represent great potential demand pool for 2nd home market
- The Carolinas are strongly positioned to capture this demand

Residential Sales Volume (Existing and New) by Use Pattern: United States

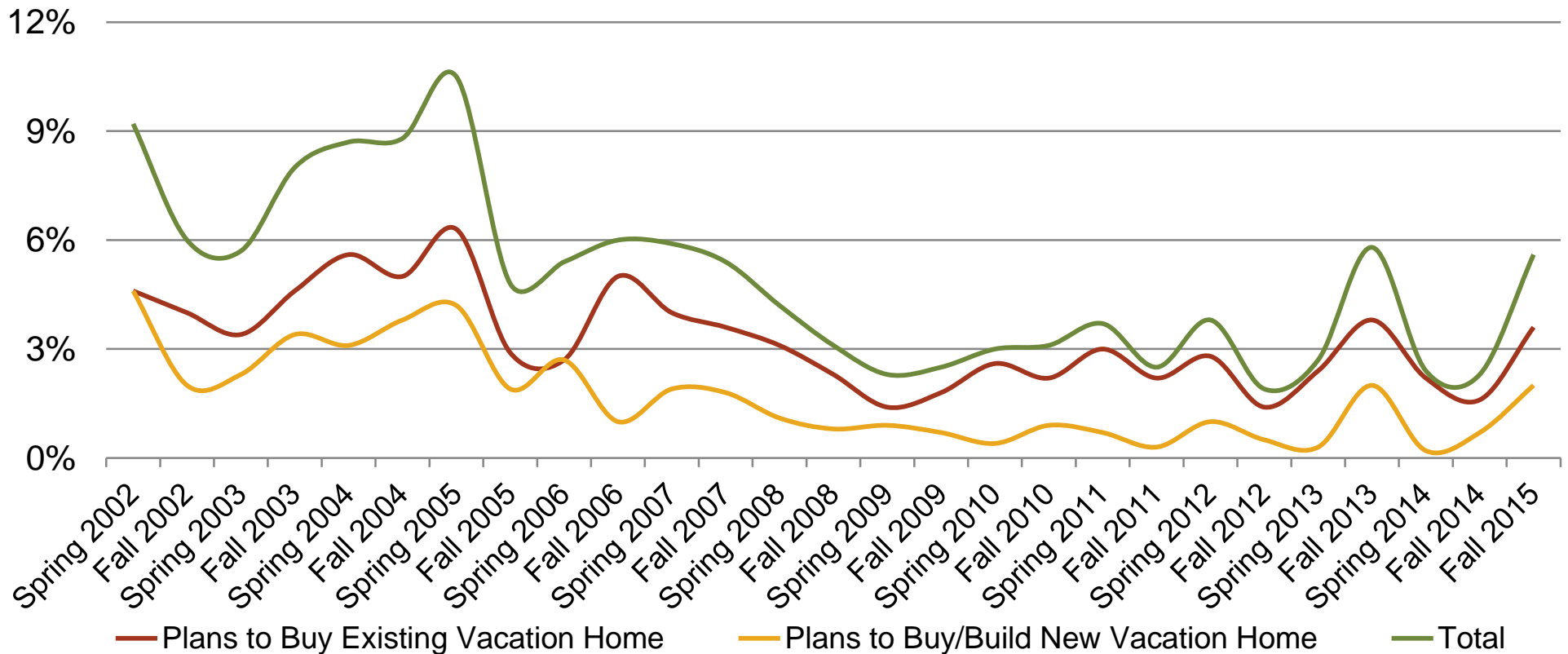


Source: NAR; RCLCO

INTENT TO PURCHASE VACATION HOME REBOUNDED

- Interest in purchasing a second vacation home is on the rise
- Anticipate trend to continue as millennials see gains from wage growth

Expressed Intent to Purchase a Second Home in the Next 12 Months Top 10% of U.S. Households by Wealth

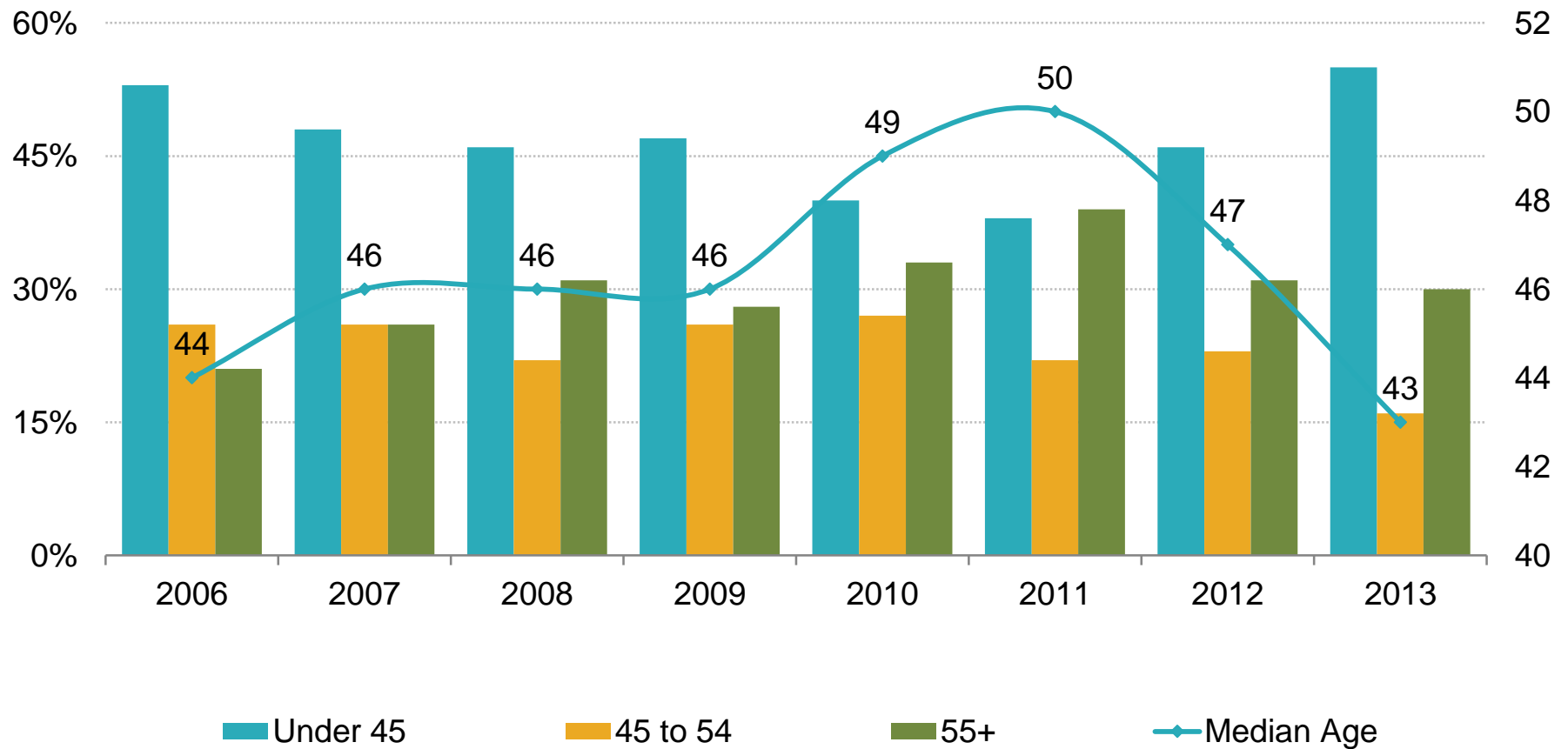


Source: American Affluence Research Center/RCLCO Annual Survey

SECOND HOME BUYERS GETTING YOUNGER

- Younger buyers enter vacation home market, driven by younger Gen X and older millennials

Vacation Home Sales by Age Cohort; 2006 – 2013

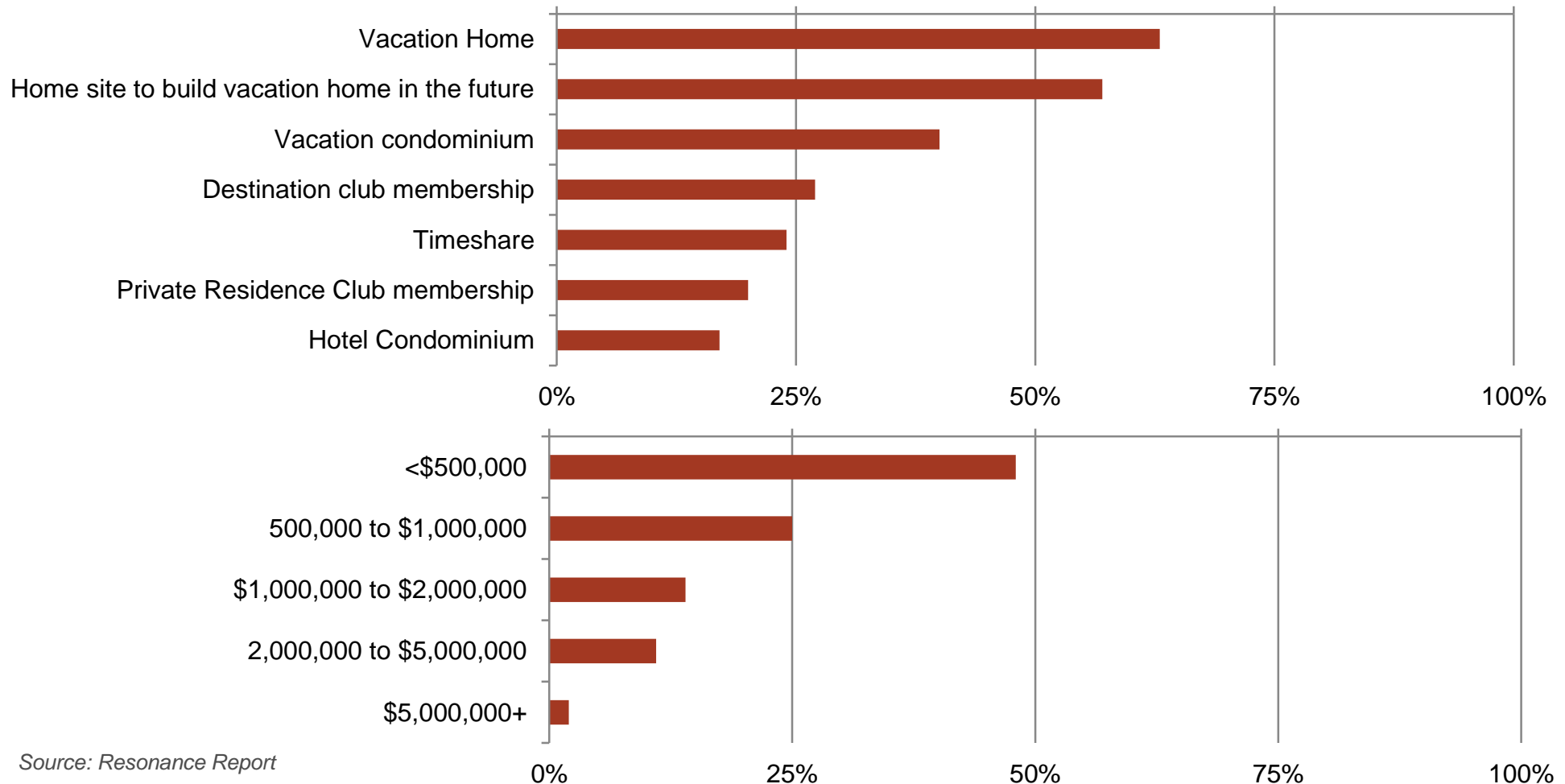


Source: NAR; RCLCO

2ND HOME DEMAND – LIFESTYLE AND PREFERENCES

- Product interest varied by lifestyle and spending power
- 15%-25% price to wealth pattern holding
- Demographics favor fractional ownership options

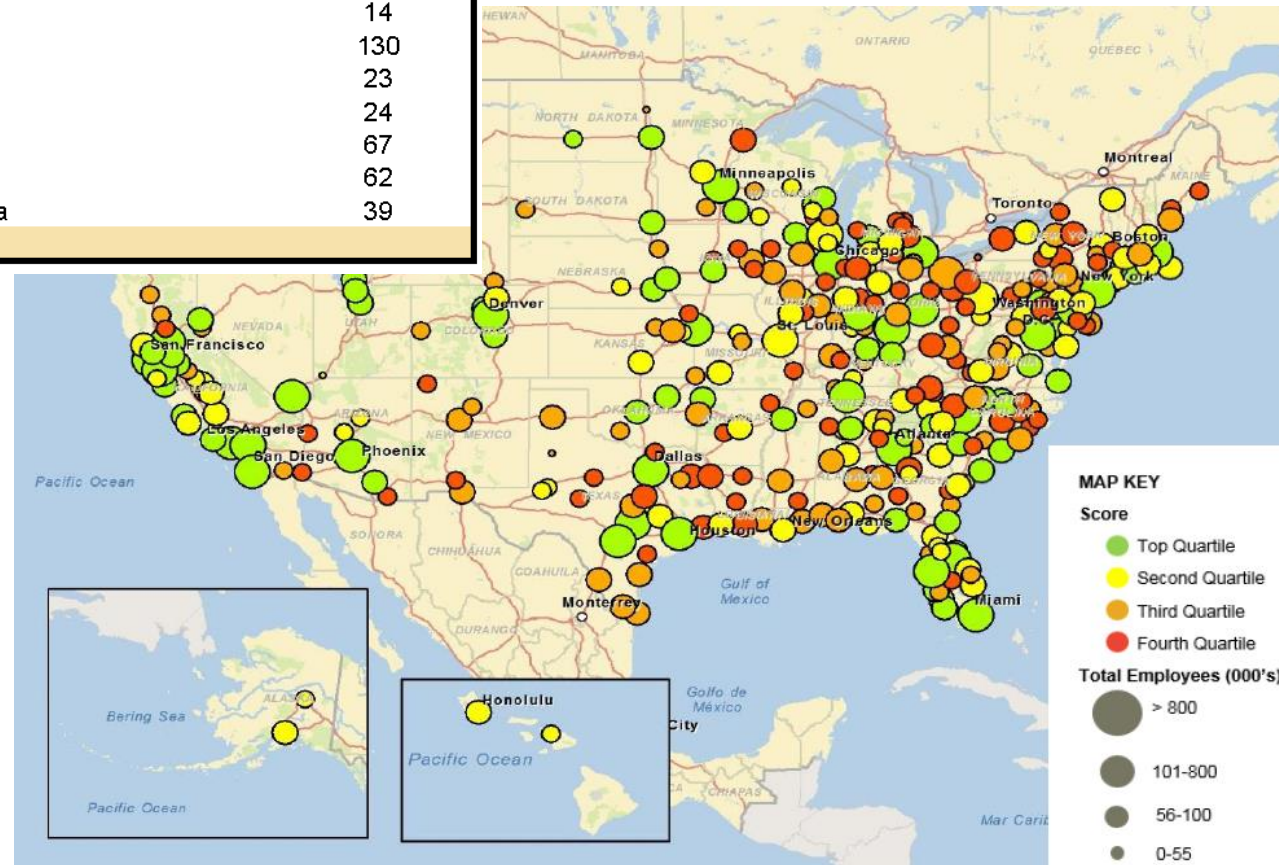
Vacation Home Type and Price Preference Among U.S. Households with \$1M+ Net Worth; 2015



Source: Resonance Report

RCLCO "MARKET HOTNESS" INDEX – RESORT MARKETS MOST DYNAMIC SMALL ECONOMIES IN THE U.S.

Rank	MSA	Small MSA's ³	Prev Rank
1	Bend-Redmond, OR Metropolitan Statistical Area		4
2	Gainesville, GA Metropolitan Statistical Area		32
3	Hilton Head Island-Bluffton-Beaufort, SC Metropolitan Statistical Area		N/A
4	Napa, CA Metropolitan Statistical Area		114
5	Bismarck, ND Metropolitan Statistical Area		1
6	Winchester, VA-WV Metropolitan Statistical Area		26
7	Bremerton-Silverdale, WA Metropolitan Statistical Area		54
8	Kahului-Wailuku-Lahaina, HI Metropolitan Statistical Area		N/A
9	Prescott, AZ Metropolitan Statistical Area		14
10	Dalton, GA Metropolitan Statistical Area		130
11	Logan, UT-ID Metropolitan Statistical Area		23
12	Panama City, FL Metropolitan Statistical Area		24
13	Oshkosh-Neenah, WI Metropolitan Statistical Area		67
14	Santa Cruz-Watsonville, CA Metropolitan Statistical Area		62
15	Mount Vernon-Anacortes, WA Metropolitan Statistical Area		39



LOOKING AHEAD AND TAKEAWAYS



POTENTIAL CURVEBALLS

- Brexit: Though it has triggered much uncertainty, it has resulted in increased foreign direct investment & REITs
- Energy spikes
- Deceleration in China
- Spot overbuilding in U.S. real estate
- Asset pricing bubble fueled by low interest rates

POSITIVE INDICATORS

- Real estate is an established asset class for institutional investors
- Strong fundamentals – economic and demographic winds in the right direction
- Stricter lending standards should prevent overbuilding
- Low inflation risk
- Strong savings rates
- Absence of credit-fueled speculative activity
- High consumer confidence
- Real estate demand outpaces construction
- US real estate is a favored asset class for global investors



- Be prepared for an economic downturn in the next 3 years.
- The South is expected to flourish.
- Think STEM.
- The “Great Delay” is just that, a delay. millennials will have children at rates similar to previous generations.
- Challenges in saving for downpayment, relatively low incomes, greater need for mobility, and better rental options will keep millennials in rentals for longer.
- Don’t believe the urban hype – the re-urbanization of the U.S. is being driven primarily by wealthy singles and childless couples – the suburbs are alive and well.
- As wages continue to improve, millennials will continue to fill out first-time buyer pools and begin thinking about 2nd homes and move-up homes.
- Boomers will transition into new housing as their children move out.
- 60% of boomers plan on moving in the next 5 years.
- Boomers are looking to downsize in terms of cost and size.
- Expressed interested in “being closer to the grandkids” means that some downsizing boomers are moving to high growth, employment centers over traditional retirement destinations.
- The housing business model is changing.
- The next 15 years will see substantial growth in housing demand in high job growth markets.
- As younger GenXers and millennials prosper, expect a surge in demand for vacation homes.
- The 21st century vacation home business model is different from the 20th century version.

QUESTIONS?

RCLCO

Key Real Estate Trends Driving the Market



ULI South Carolina Capital Markets Conference

Wednesday, September 7, 2016

9:00 AM