RENTAL HOUSING IN THE ‘ROARING ‘20S’

ULI Fall Meeting / CDC Blue

October 25, 2017

Taylor Mammen, Managing Director

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MACROECONOMIC & CAPITAL MARKETS OVERVIEW

EMPLOYMENT SENDS MIXED SIGNALS

Job growth is positive but wages continue uneven recovery

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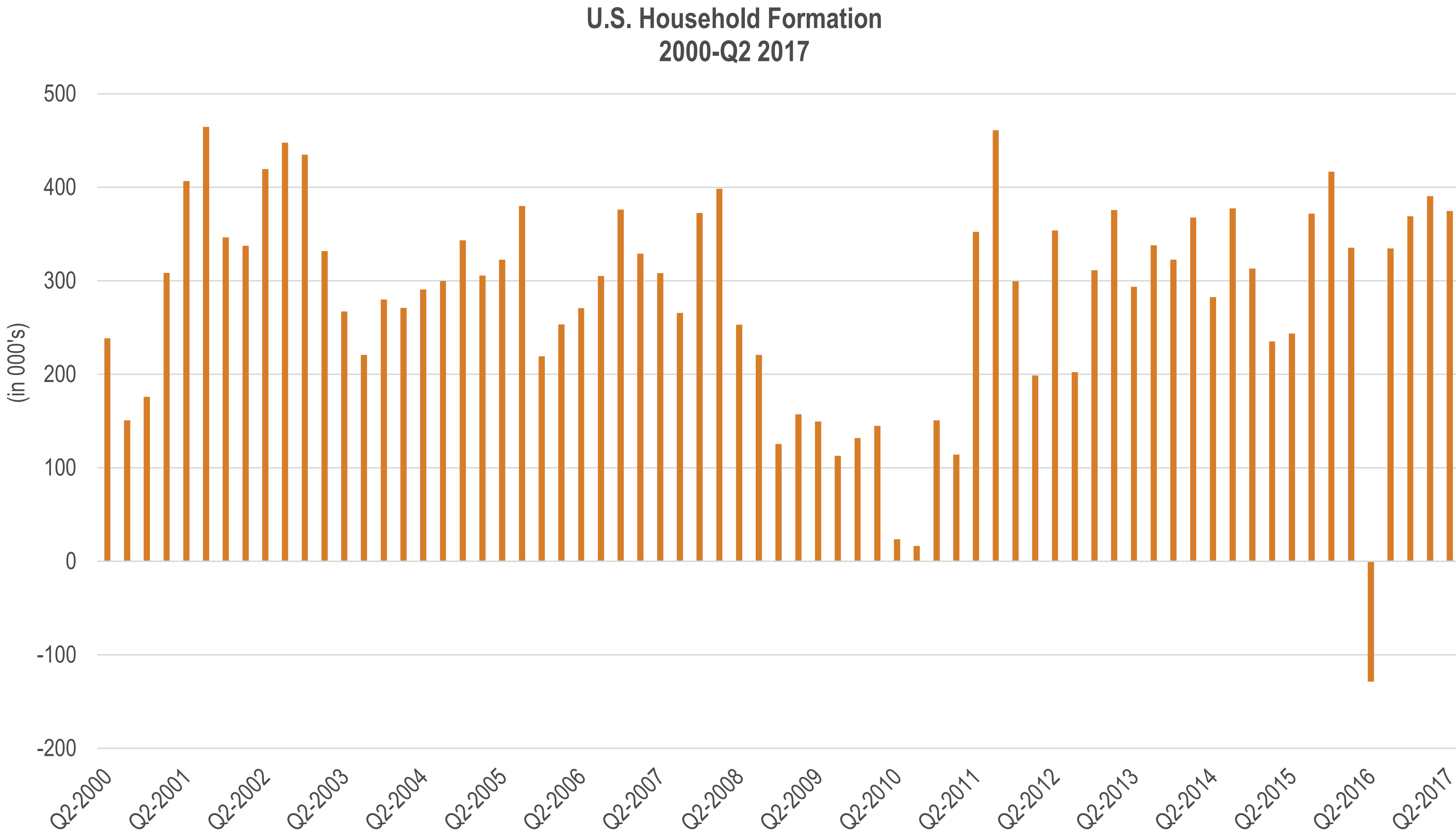
Source: Moody's Economy.com; St. Louis Federal Reserve; RCLCO Quarterly Chartbook

HOUSEHOLD FORMATION IS STRONG

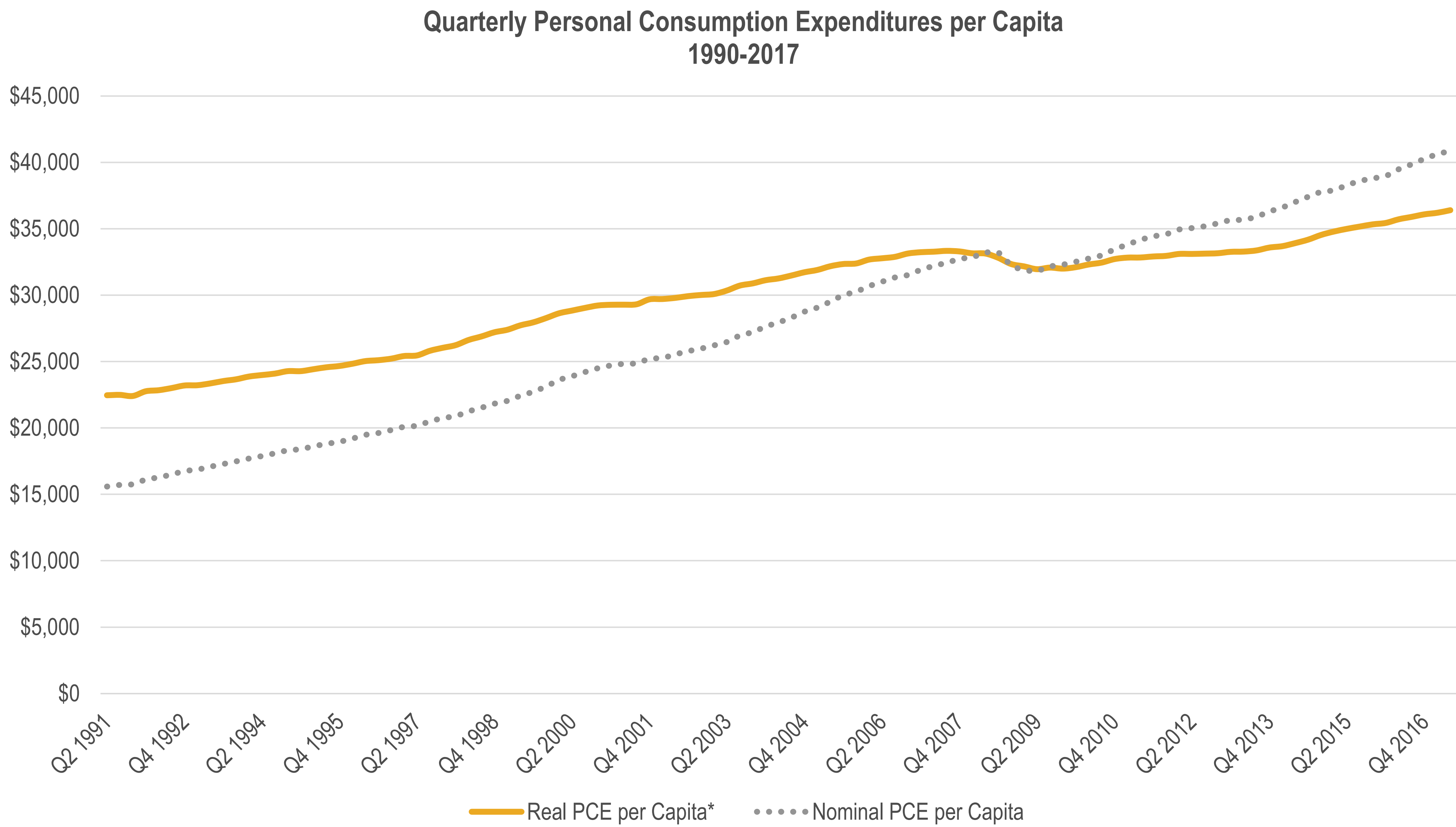
The liberation from parents' basements continues



Source: Moody's Economy.com; RCLCO Quarterly Chartbook

PER CAPITA SPENDING GROWING STEADILY

Real per capital spending is now 9% above 2007 peak



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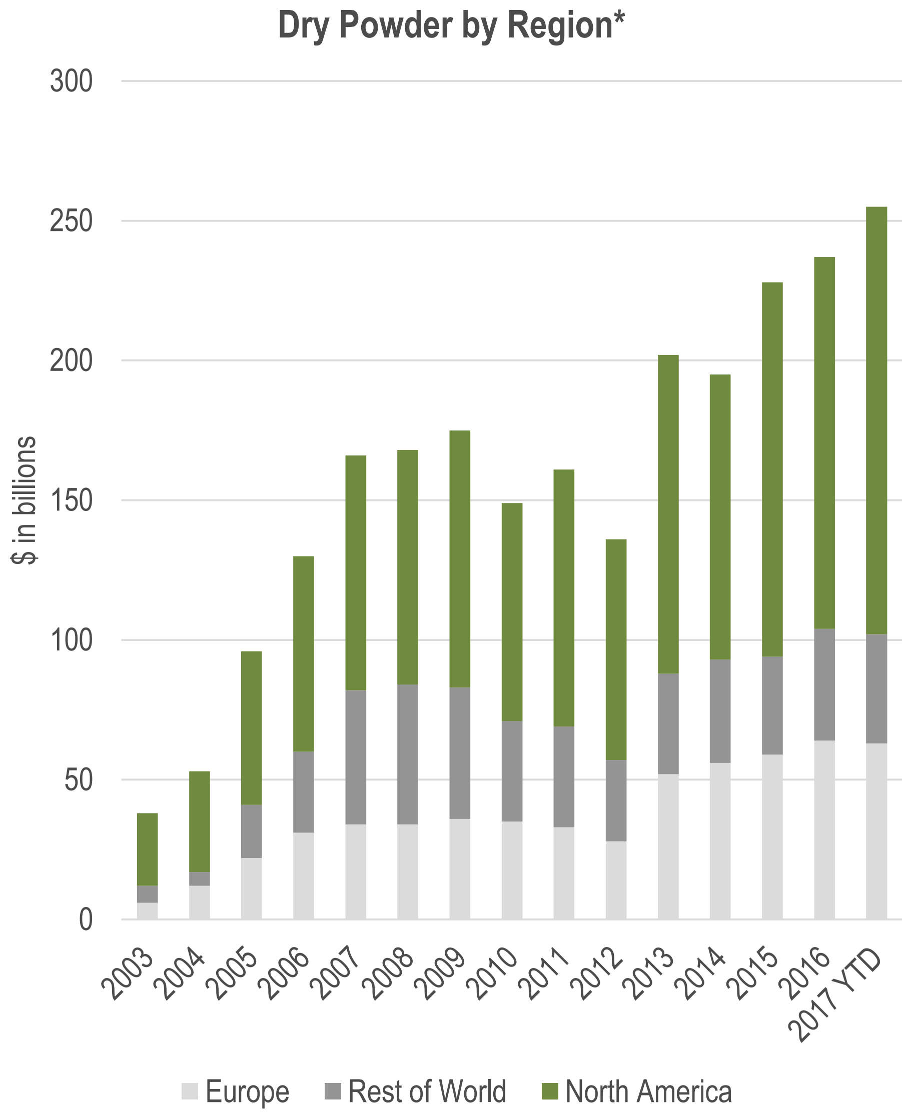
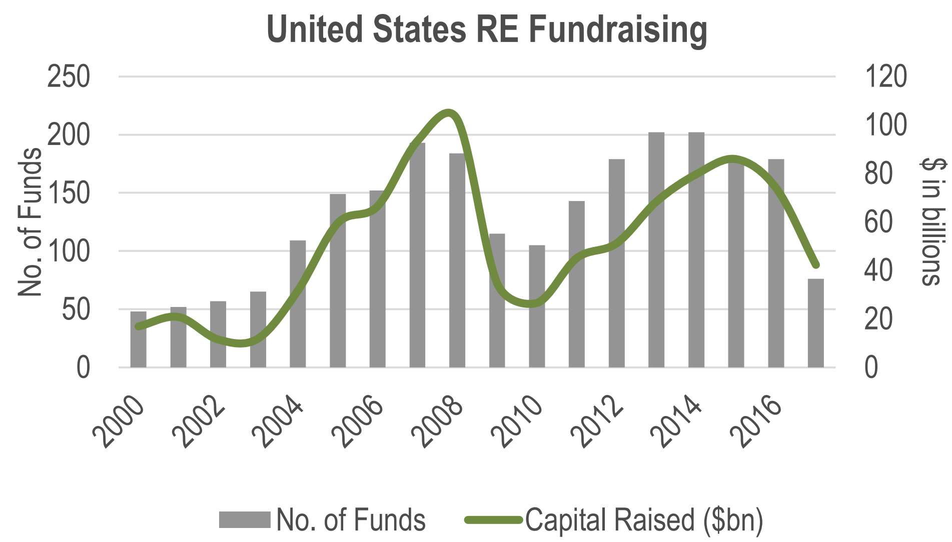
**Chained 2009 Dollars*

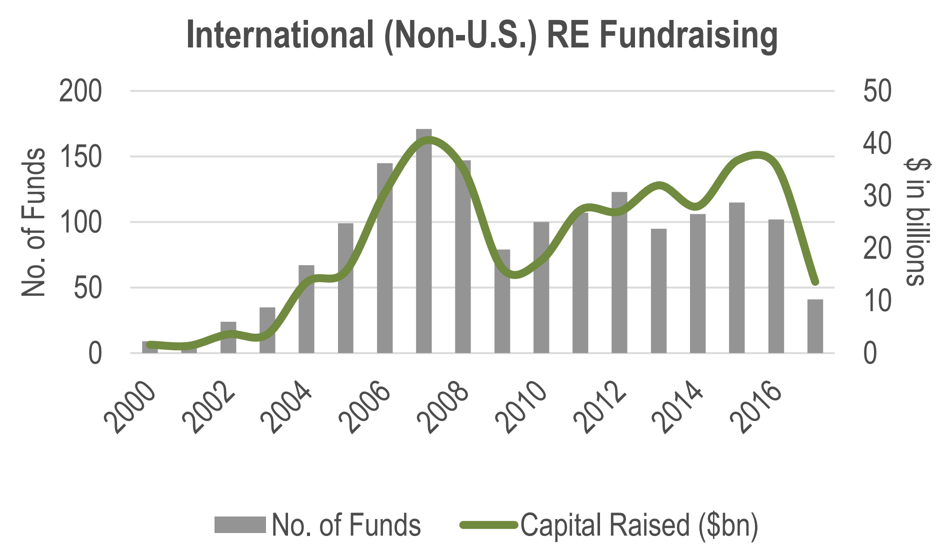
Source: St. Louis Federal Reserve; RCLCO Quarterly Chartbook

REAL ESTATE EQUITY IS ABUNDANT

Plentiful "dry powder," but fundraising may be moderating







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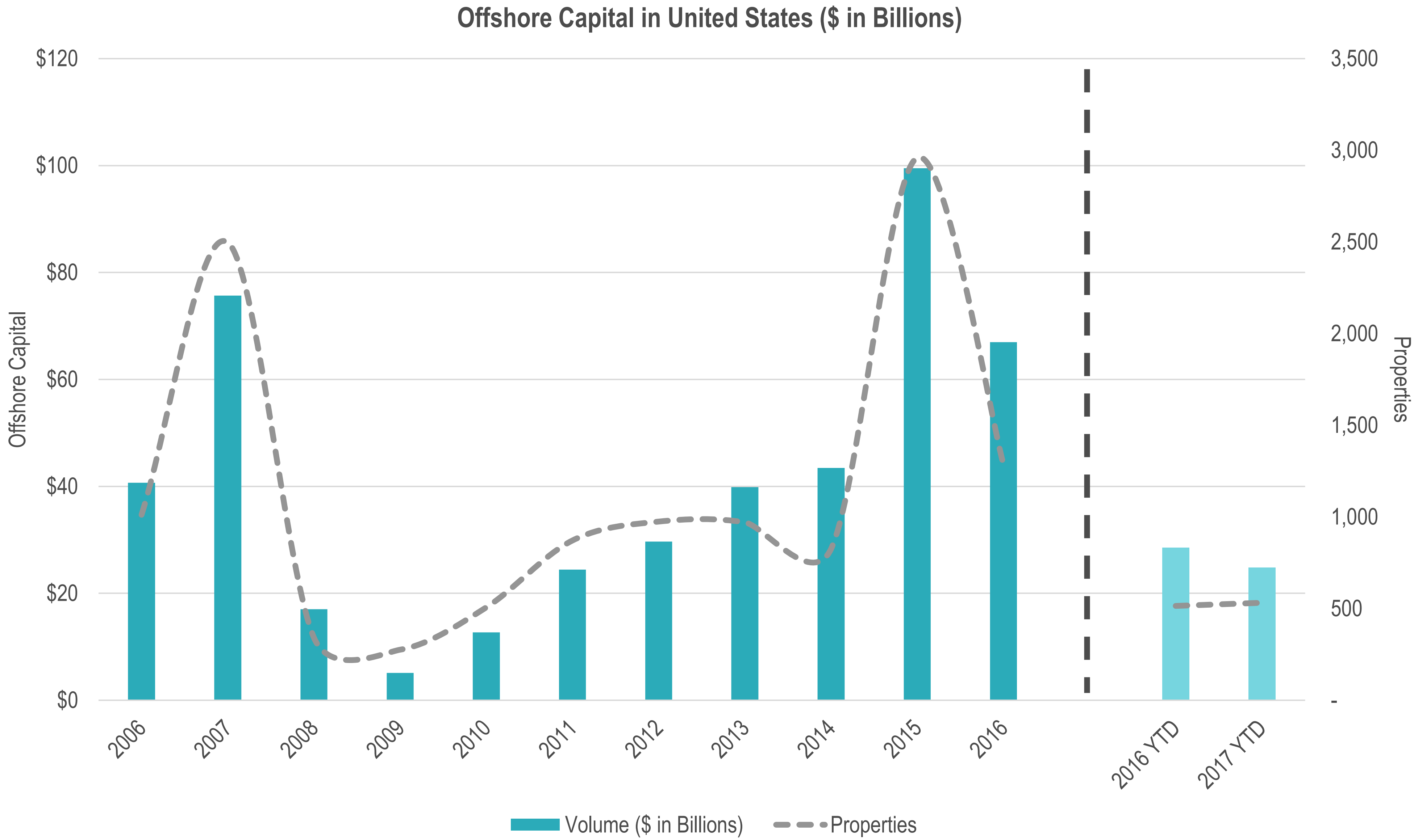
**Private equity cash reserves held to fund future obligations*

Source: Preqin; RCLCO Quarterly Chartbook

STILL PLENTY OF OFFSHORE CAPITAL

2017 foreign capital transactions close to 2016 pace



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Source: RCA; RCLCO Quarterly Chartbook

REAL ESTATE DEBT SEEMS ABUNDANT, ALSO

Overall, debt markets are active thanks to commercial banks & GSEs

U.S. Commercial RE Debt Markets - Net Capital Flows - Annually 1985 - 2016

U.S. Commercial RE Debt Markets - Net Capital Flows - Quarterly

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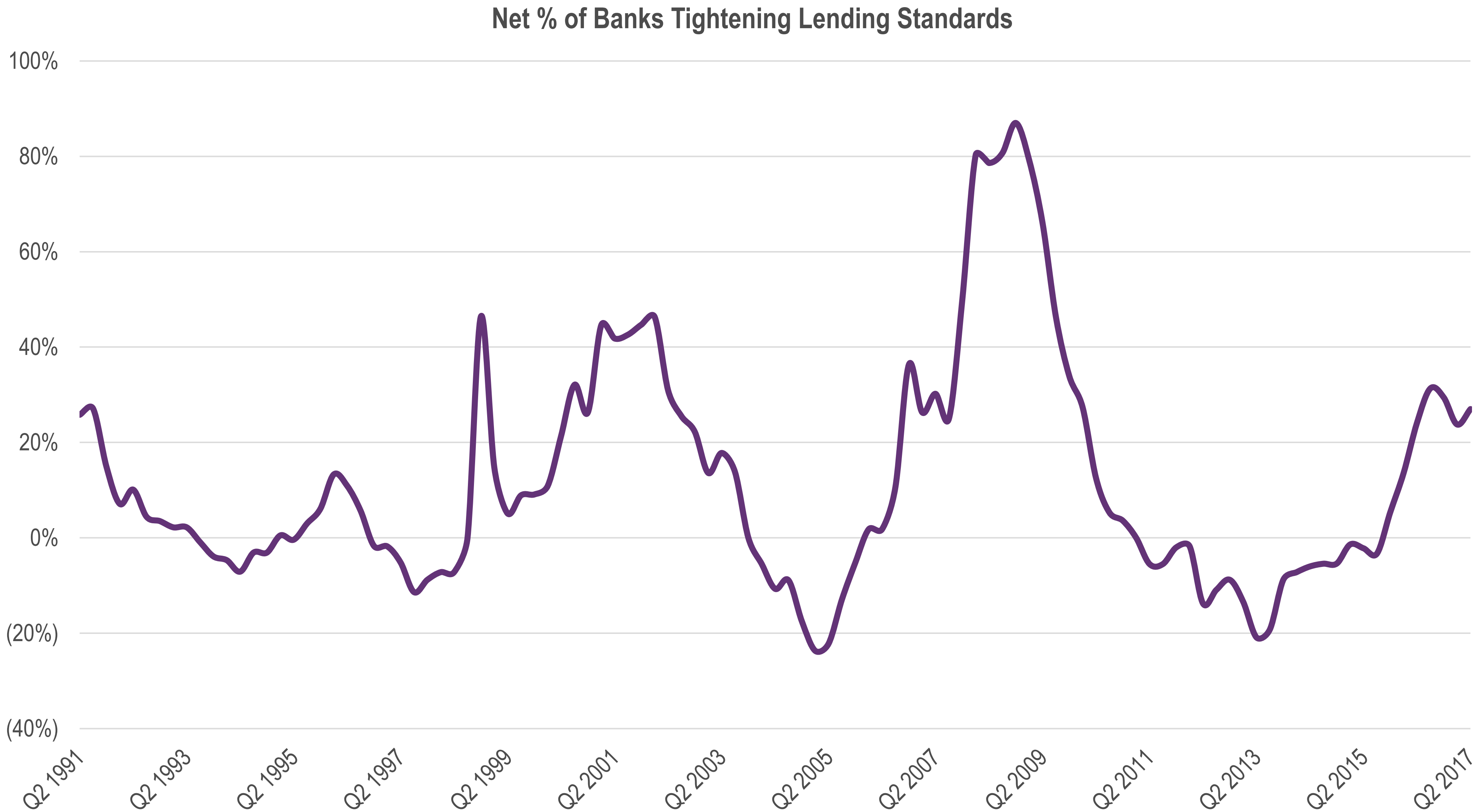
Note: Federal Reserve Data releases lag by one quarter. As of Q2 2017, the most recent data is as of Q1 2017.

Source: U.S. Federal Reserve; National Association of Real Estate Investment Trusts (NAREIT); RCLCO Quarterly Chartbook

BUT STANDARDS MAY BE TIGHTENING

Continued post-recession challenge to finance anything with risk



Note: As of Q4 2013, the U.S. Federal Reserve separated this data into three categories (construction/development, nonfarm nonresidential, and multifamily residential), depending on the type of structure for which the loan is intended. For these time periods, the data shown on the graph represents the average of these three categories.

Source: U.S. Federal Reserve; RCLCO Quarterly Chartbook

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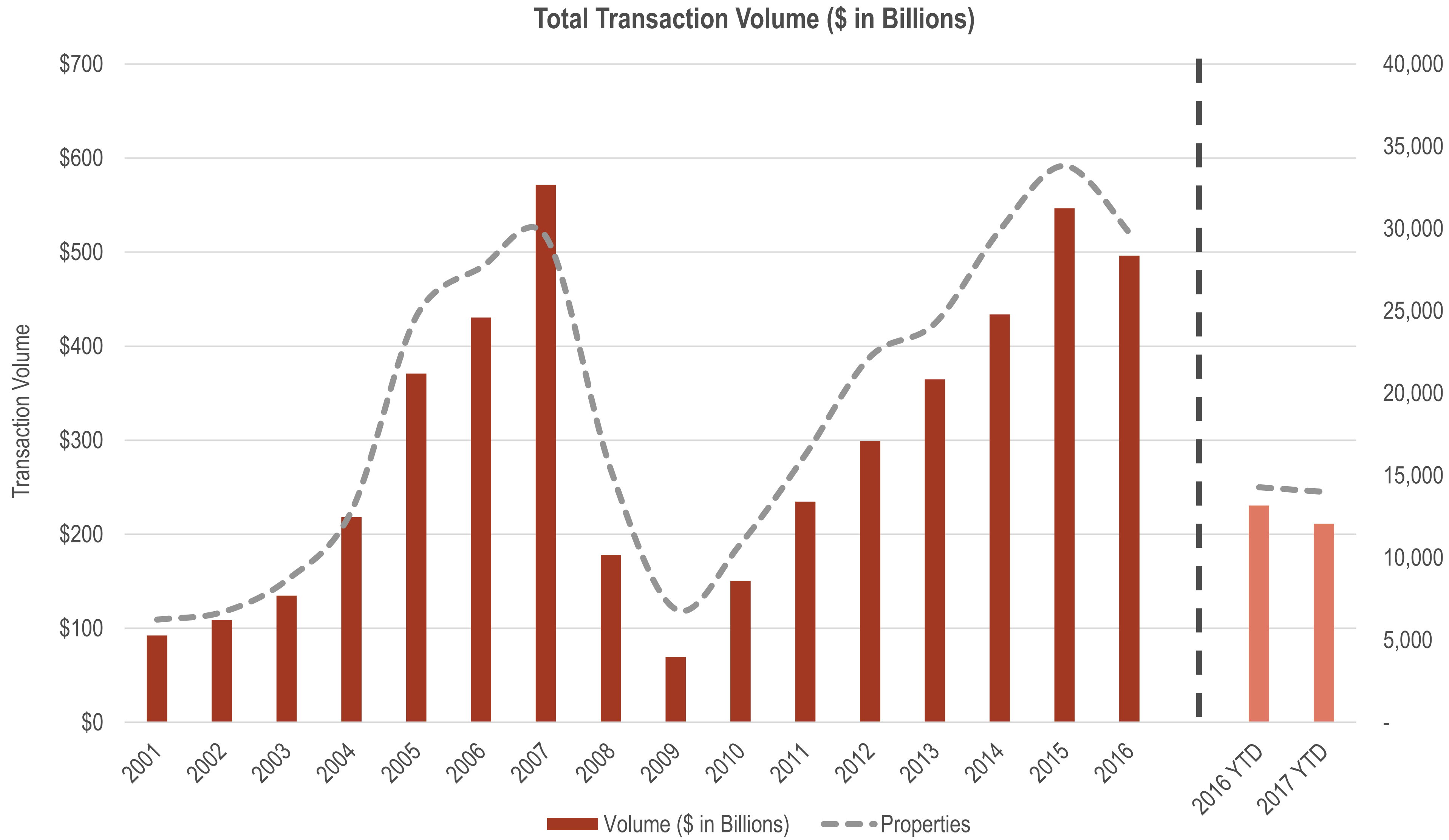
RESULT: STRONG TRANSACTION VOLUME

2017 real estate transactions very close to 2016 pace



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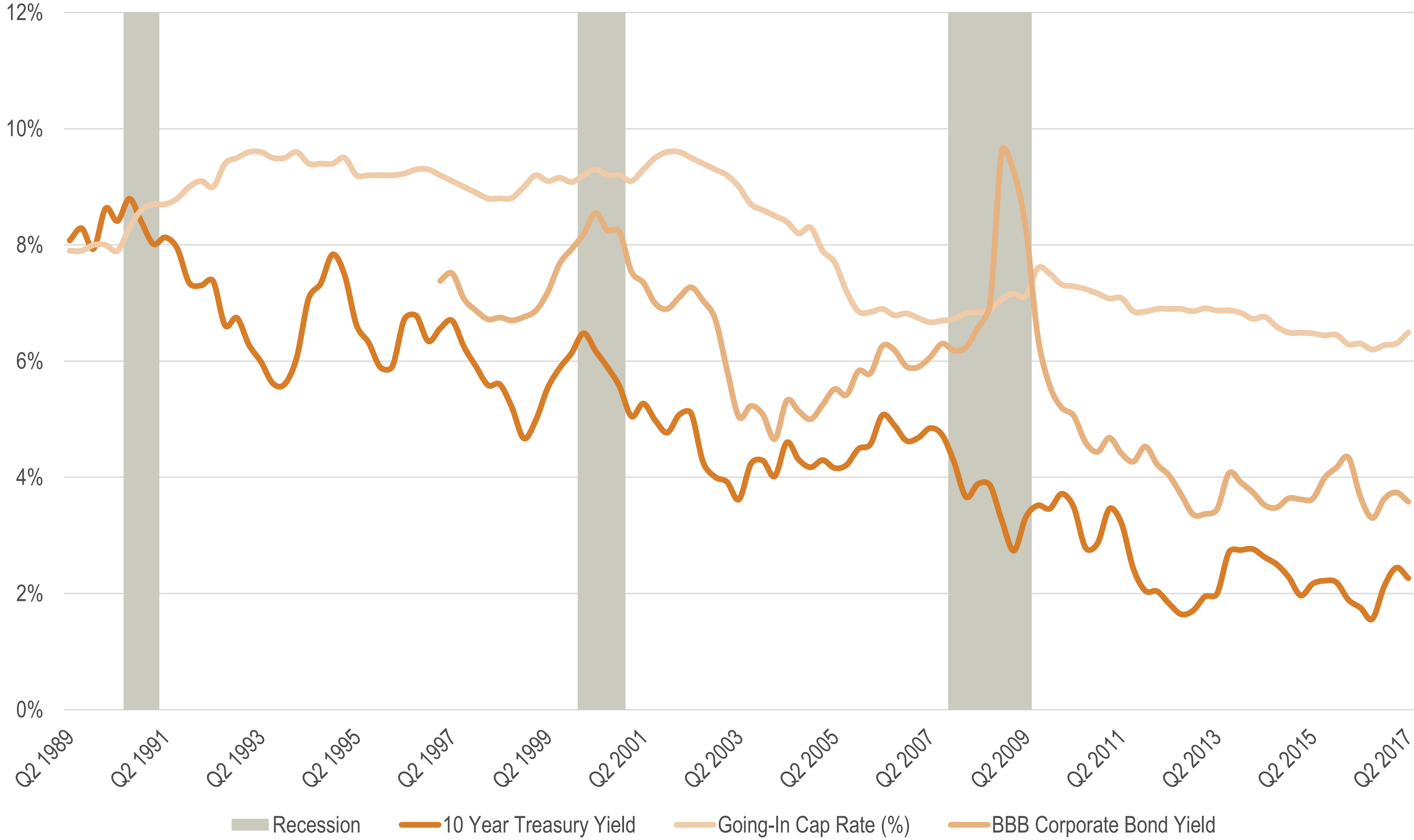
Note: Only includes transactions valued at $2.5 million or greater

Source: Real Capital Analytics (RCA); RCLCO Quarterly Chartbook

CAP RATES INCREASE

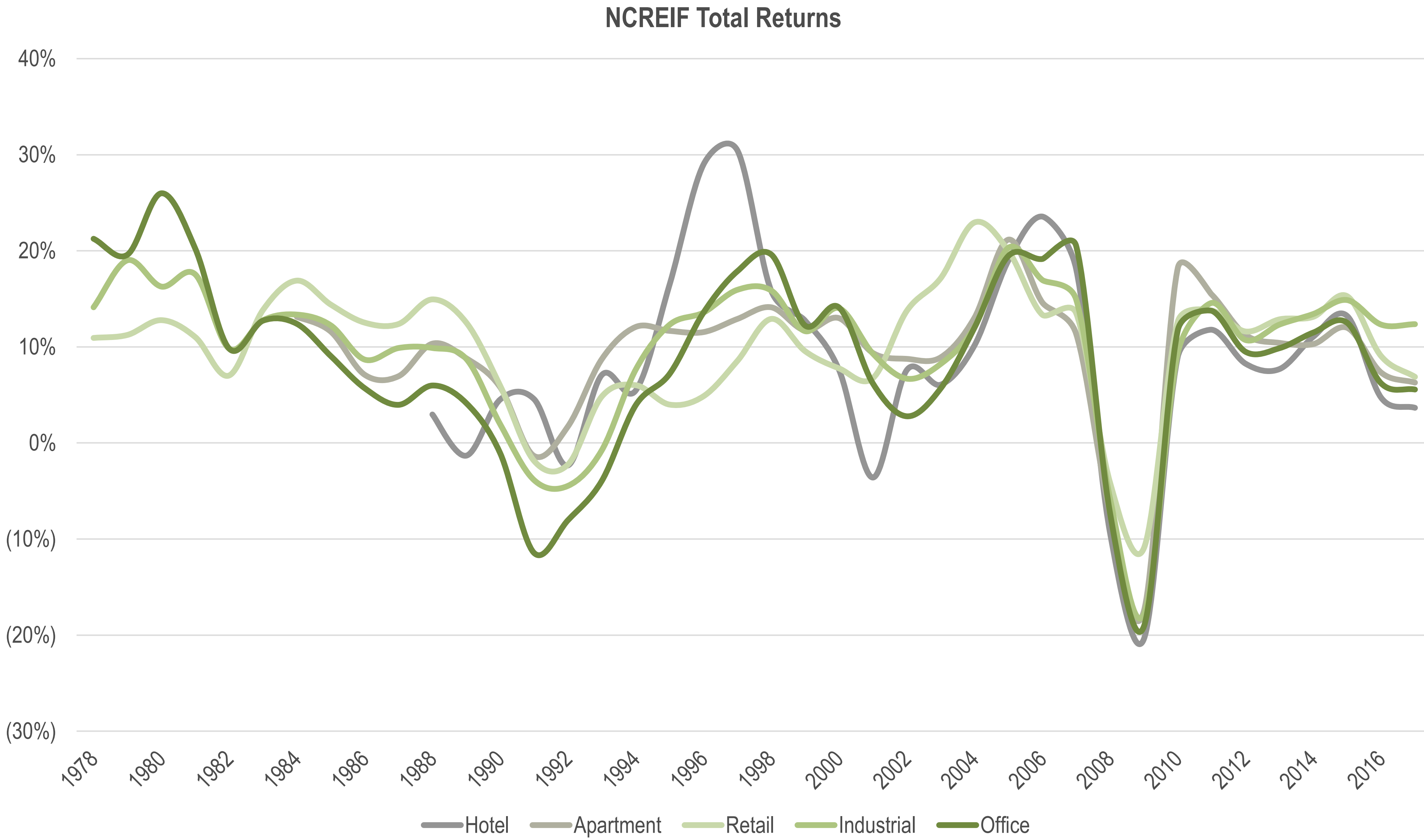
Most consistent cap rate expansion since the recession



Source: U.S. Federal Reserve; Real Estate Research Corporation (RERC); RCA; Federal Reserve Bank of St. Louis; RCLCO Quarterly Chartbook

NCREIF RETURNS CONTINUE TO MODERATE

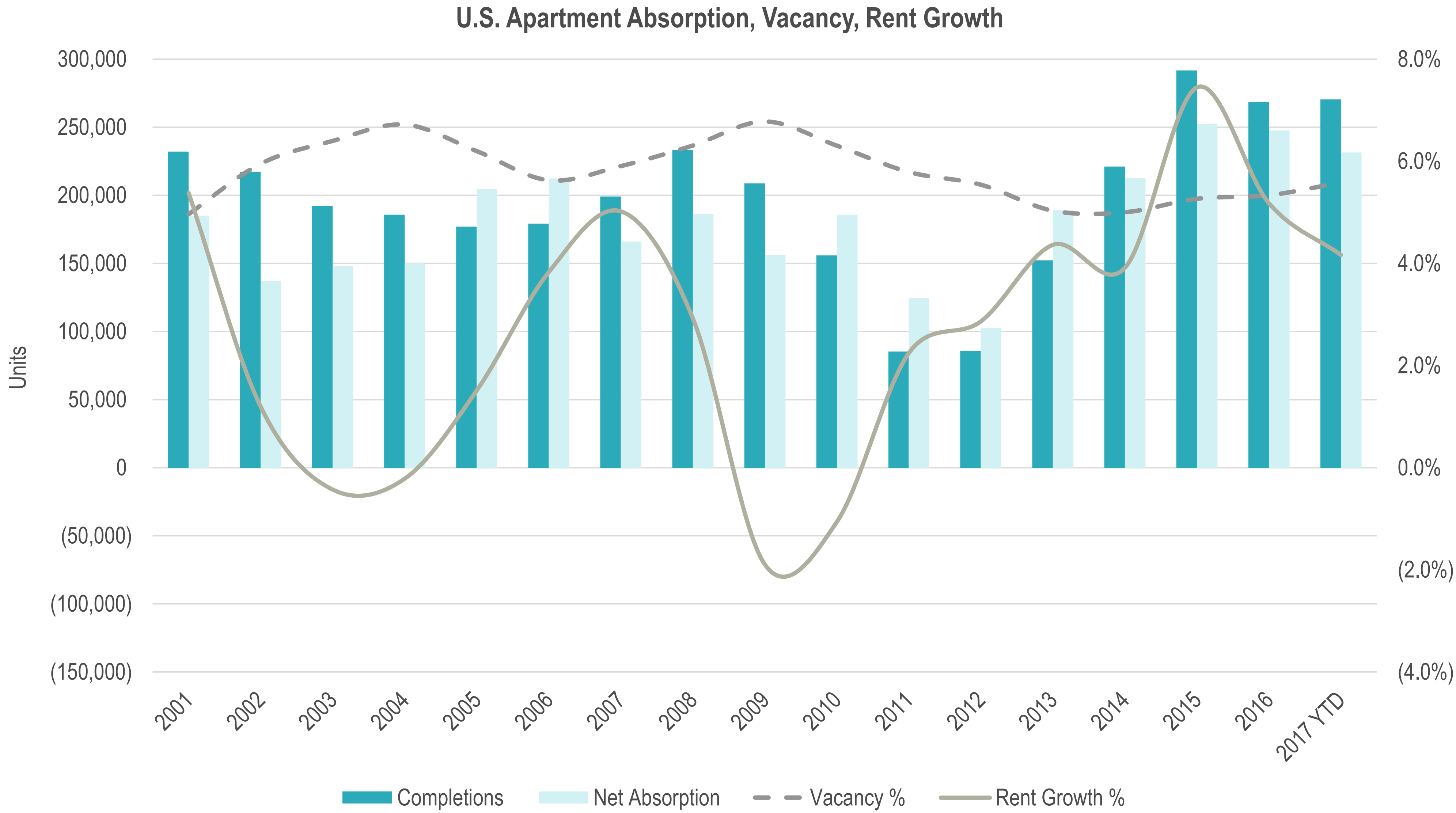
Industrial leads total returns, while others lag more sharply



Source: National Council of Real Estate Investment Fiduciaries (NCREIF); RCLCO Quarterly Chartbook

VACANCY CONTINUES TO INCREASE

Rent growth remains strong, but is slowing



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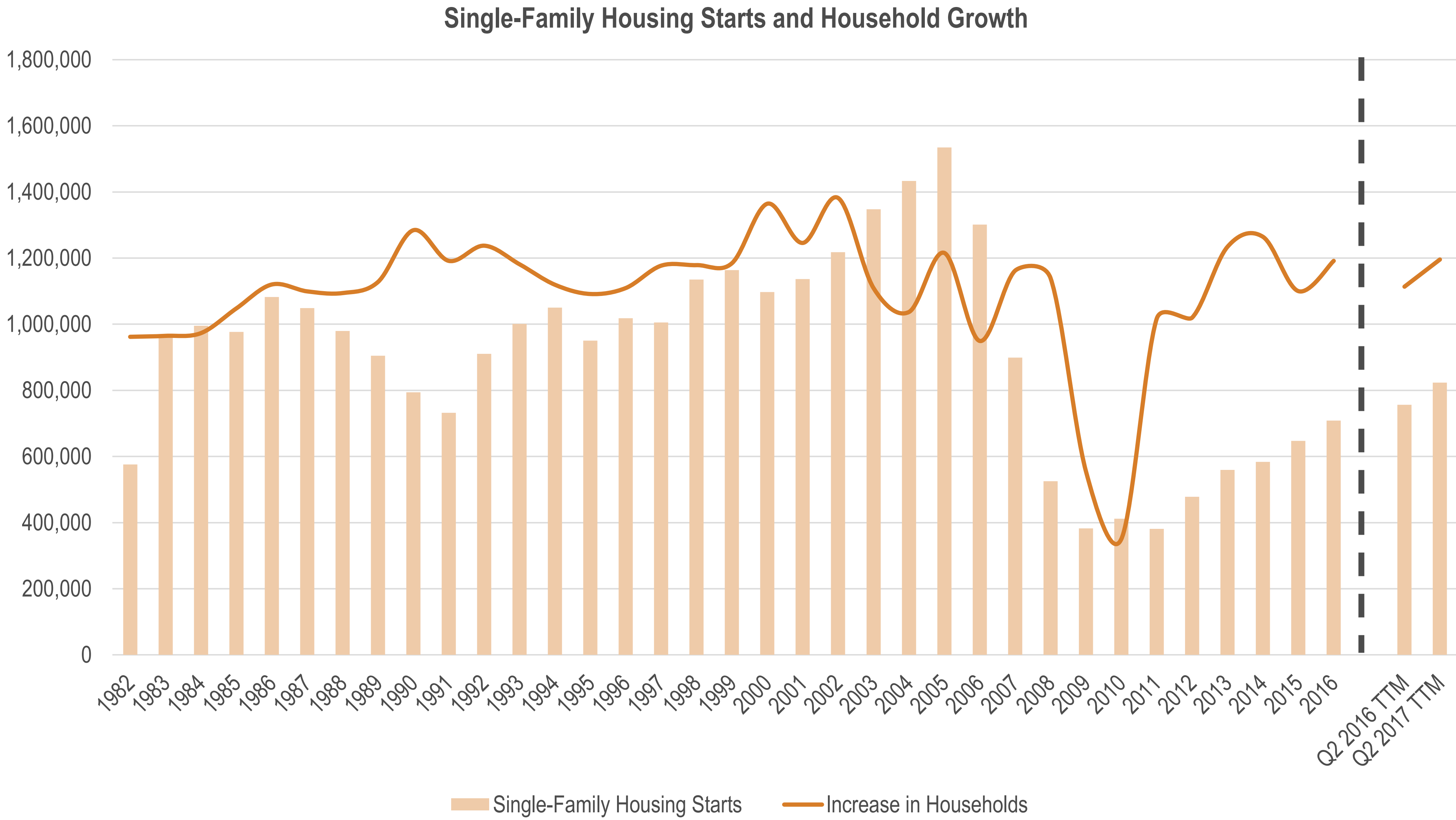
Note: Apartment criteria filtered as follows: multifamily property (secondary type is apartment), 50+ units, and a 3-star or greater CoStar rating

Source: CoStar; RCLCO Quarterly Chartbook

NEW HOUSEHOLDS OUTPACE SF STARTS

Multifamily filling the gap; pent-up demand is likely growing



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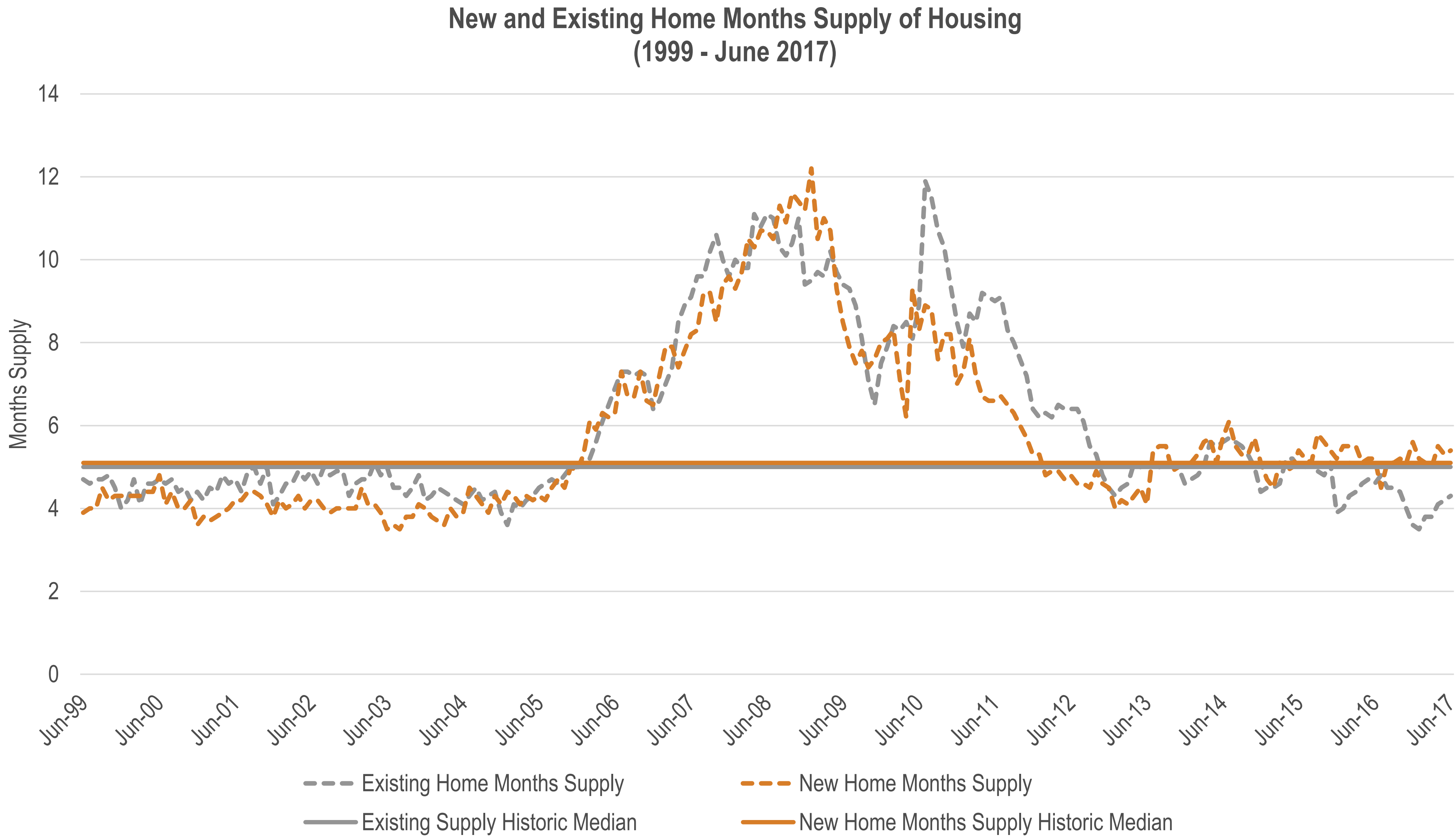
Note: Single-Family Housing Starts include single-family detached and single-family attached (townhomes)

Source: Moody's Analytics; RCLCO Quarterly Chartbook

NEW HOME SUPPLY ABOVE MEDIAN

Existing housing supply still below median level of inventory



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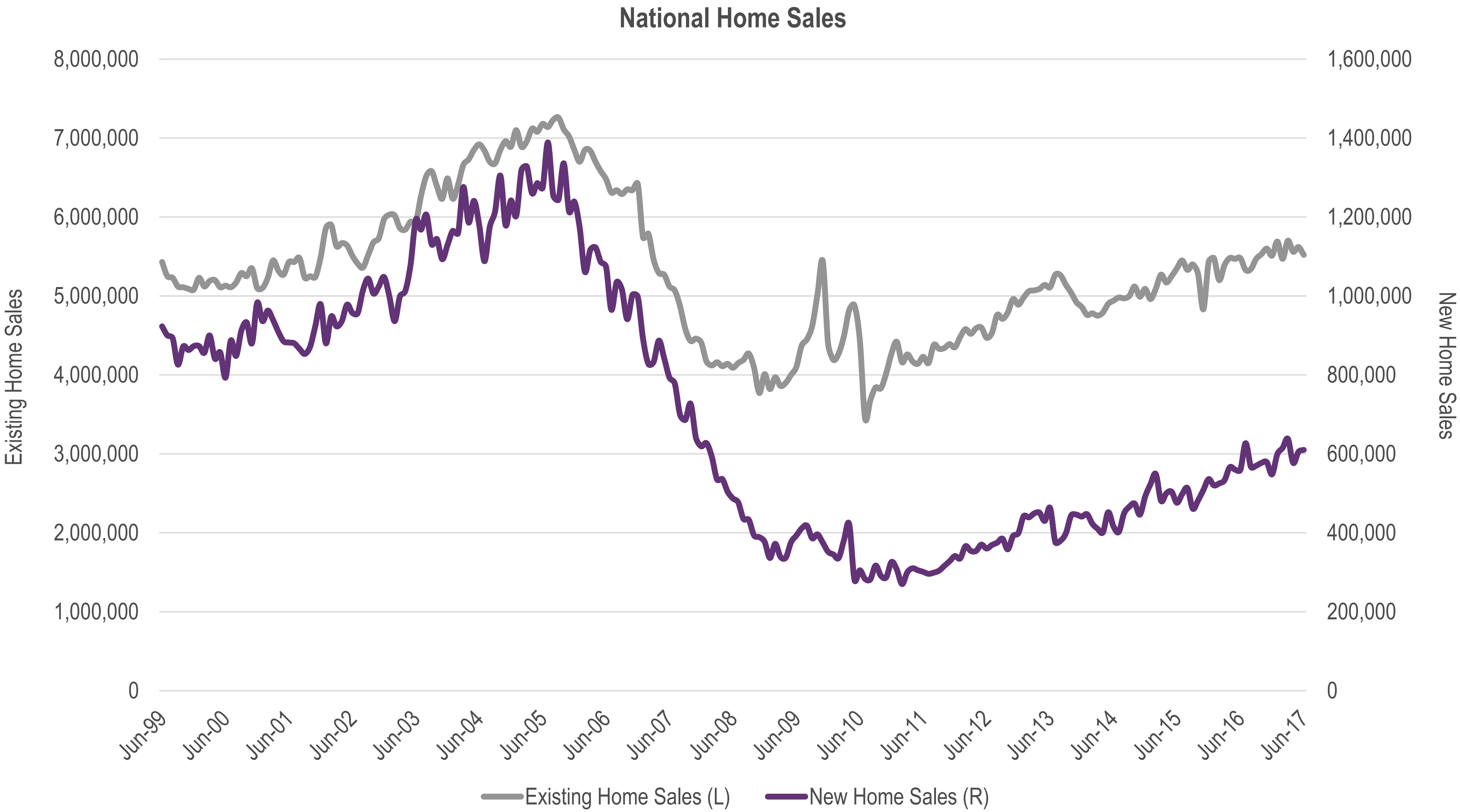
Note: Home supply includes single-family detached, condo, and townhomes

Source: National Association of Realtors (NAR); RCLCO Quarterly Chartbook

STEADY INCREASE IN HOME SALES

New home sales still significantly lag historical levels

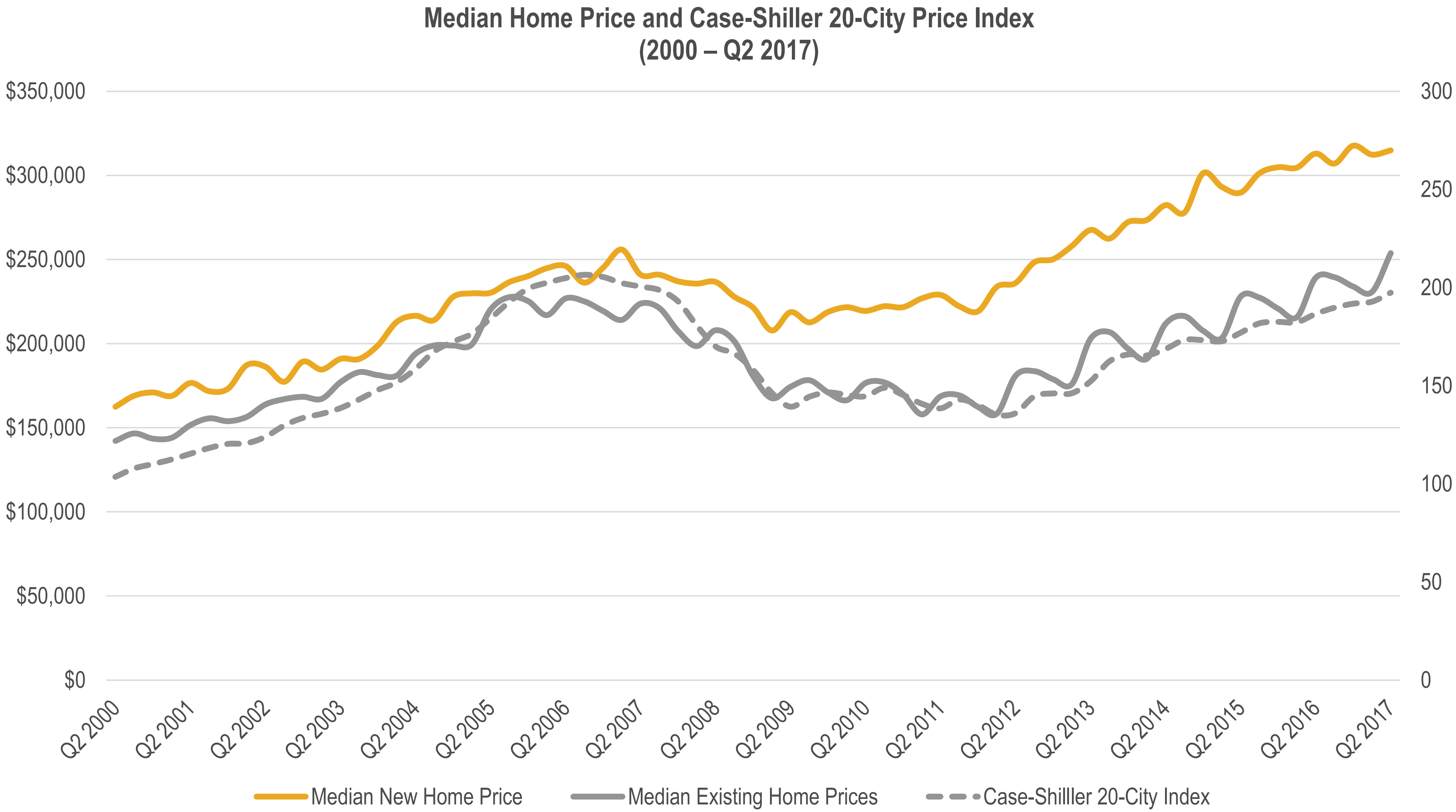


Note: Monthly data are seasonally adjusted annual rates

Source: U.S. Census Bureau; NAR; RCLCO Quarterly Chartbook

PRICING CONTINUES TO INCREASE

New homes prices may be moderating as builders reach for the entry level

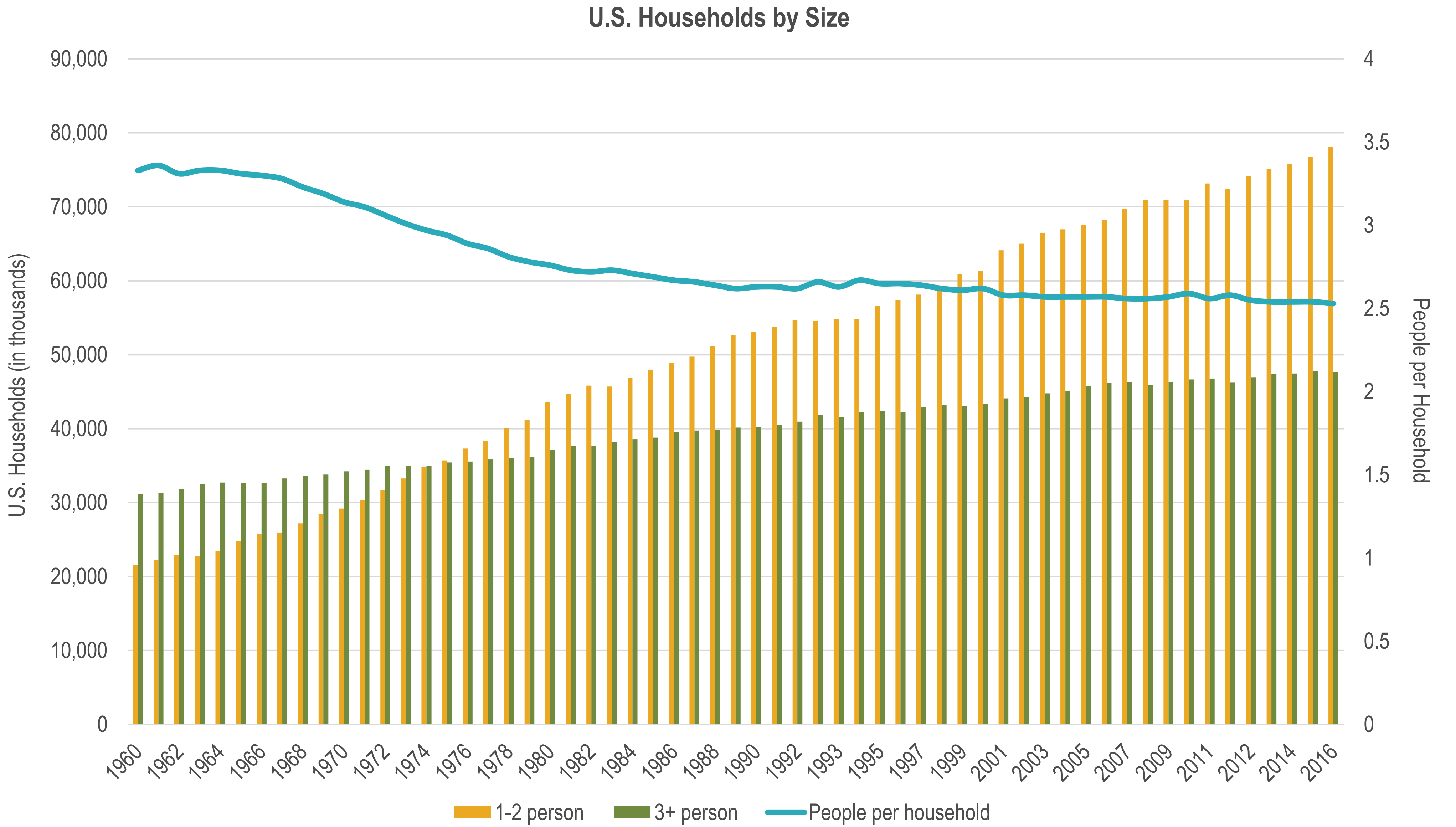


Source: U.S. Census; NAR; Standard & Poor's; Federal Reserve Bank of St. Louis; RCLCO Quarterly Chartbook

LOW-DENSITY RENTAL HOUSING

SMALLER HOUSEHOLDS ON THE RISE

Smaller households in every age group



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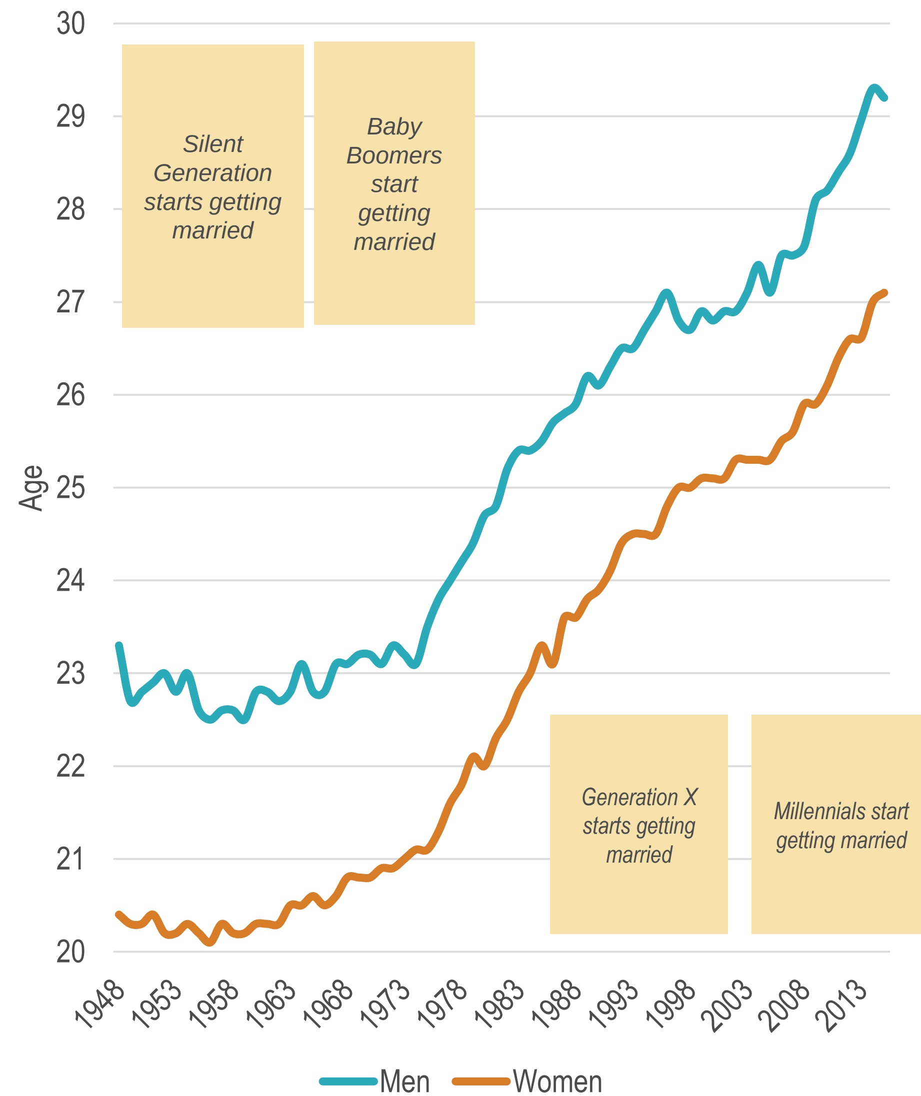
Source: U.S. Census Bureau

“DELAYED ADULTHOOD”

Drives delayed household formation

% of Age Group Living with Parents

Average Age of First Marriage



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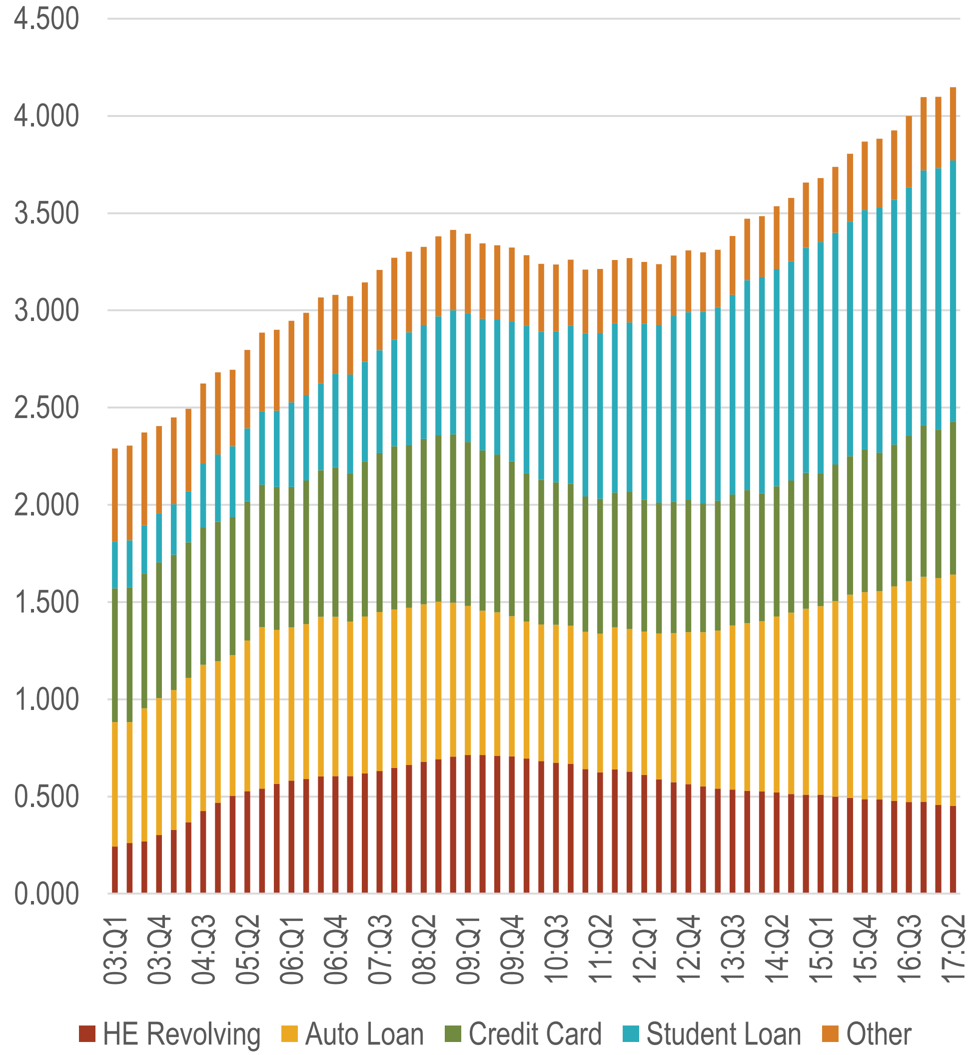
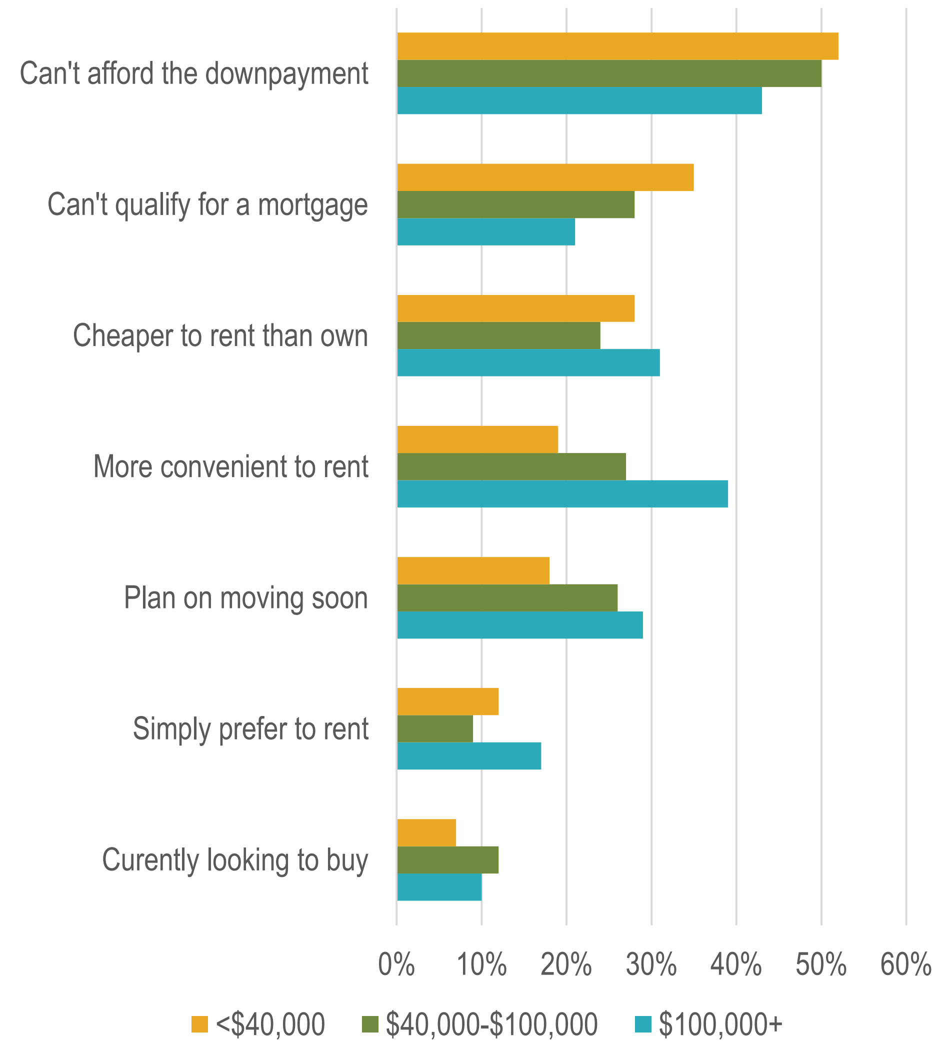
Source: U.S. Census Bureau

DELAYED WEALTH-CREATION, ALSO

“Can’t afford the downpayment” the leading reason to rent for all income groups

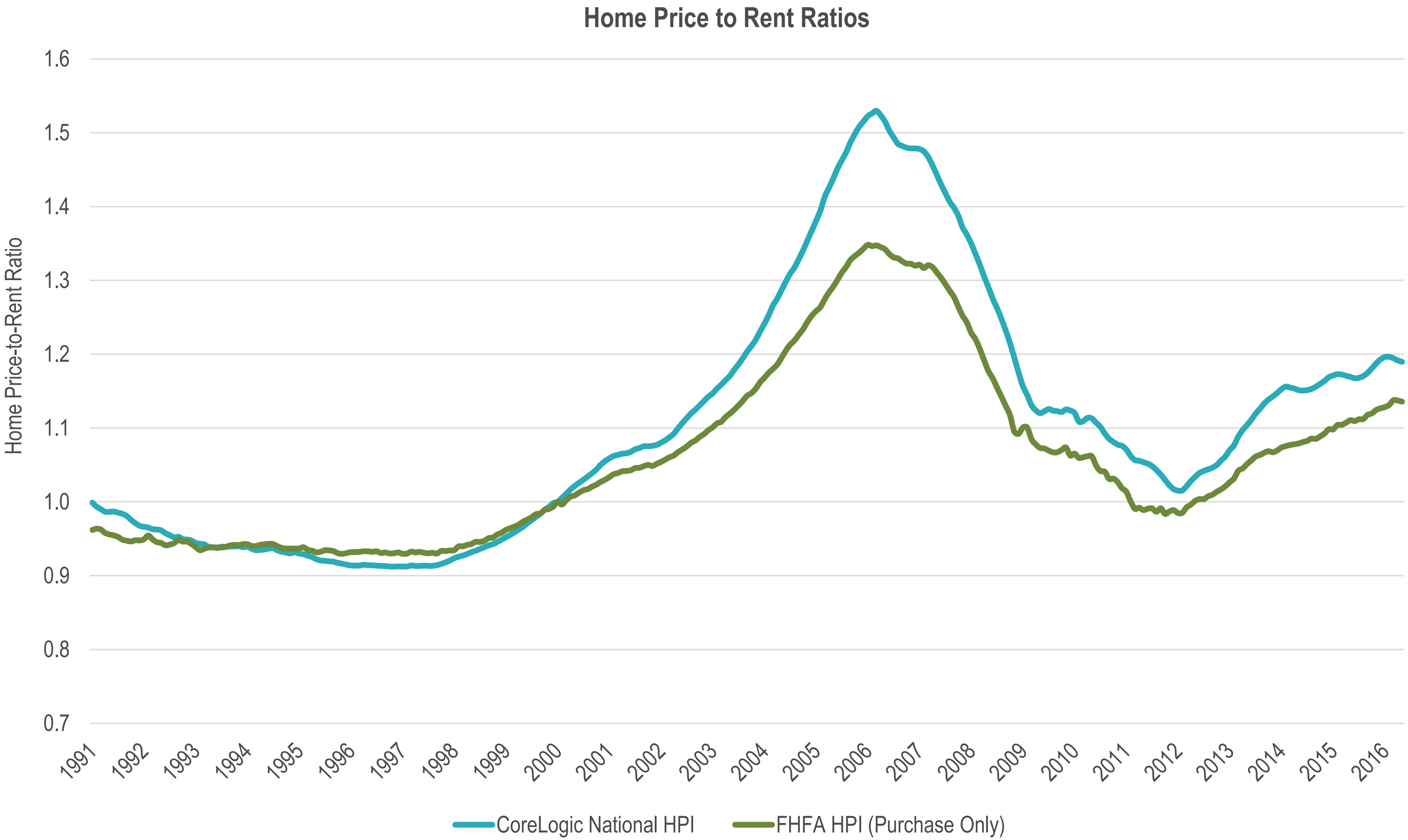




Source: Federal Reserve Bank of New York Consumer Credit Panel / Equifax; Demand Institute

HOUSING OWNERSHIP IS RELATIVELY EXPENSIVE

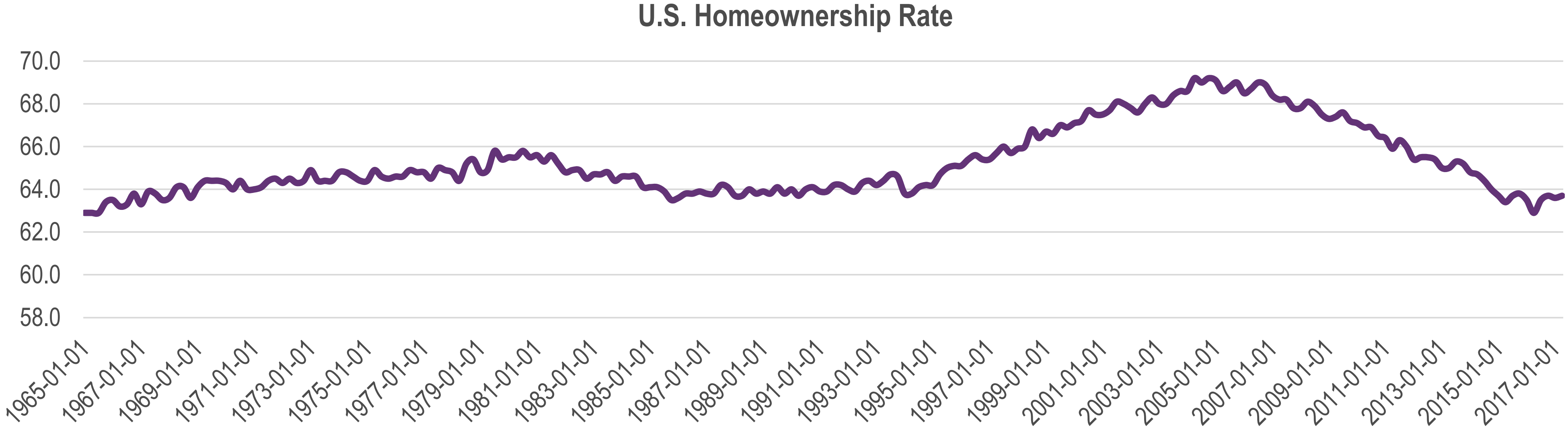
Even given very strong multifamily rent growth

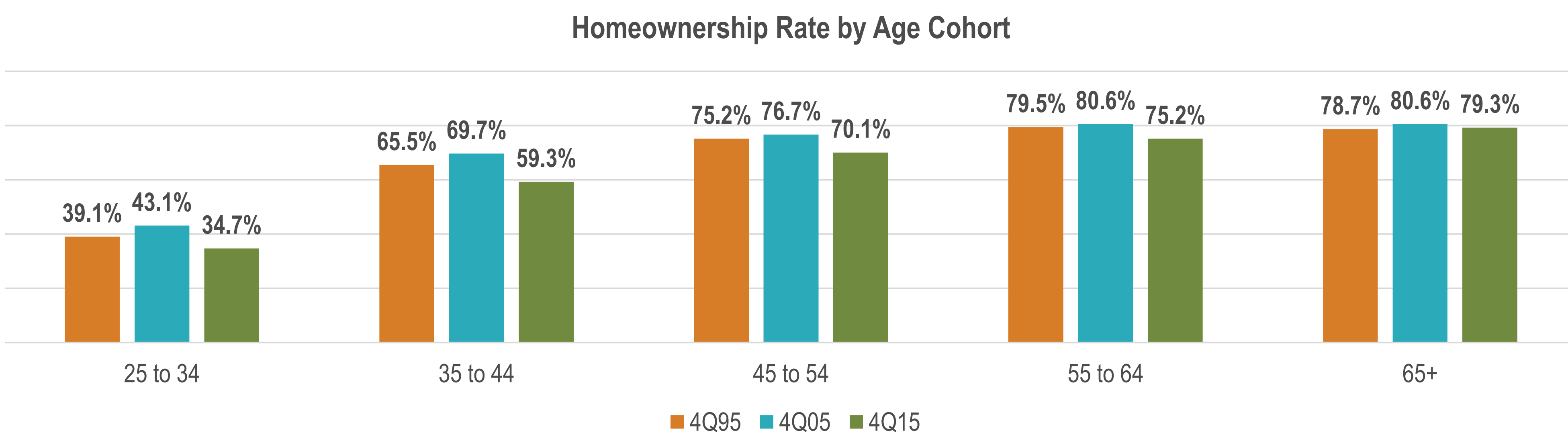


Source: U.S. Census Bureau

HOMEOWNERSHIP RATE MAY HAVE STABILIZED

But younger age groups may continue to lag other generations in becoming owners





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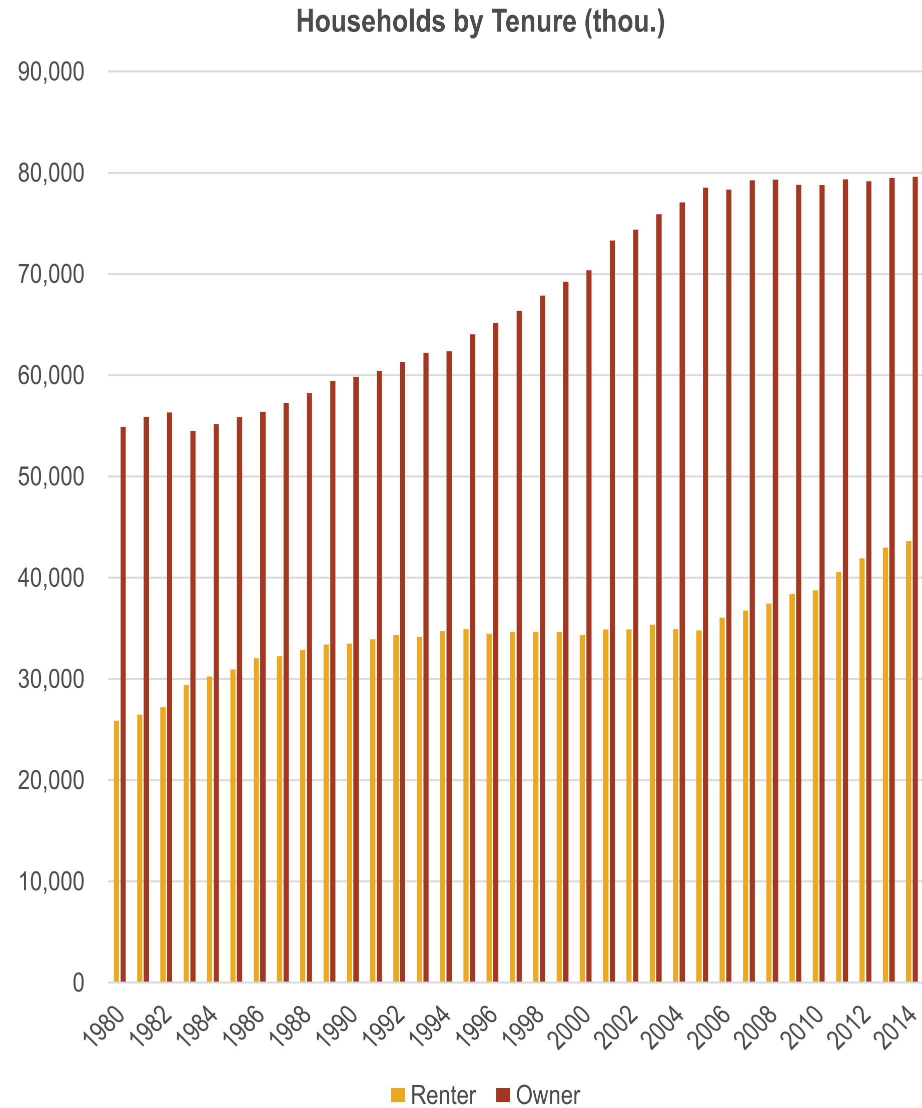
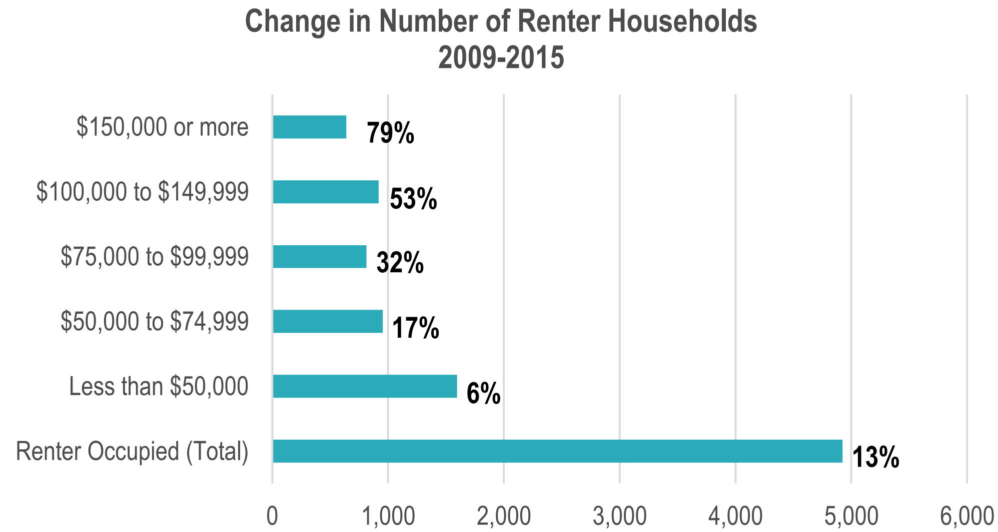
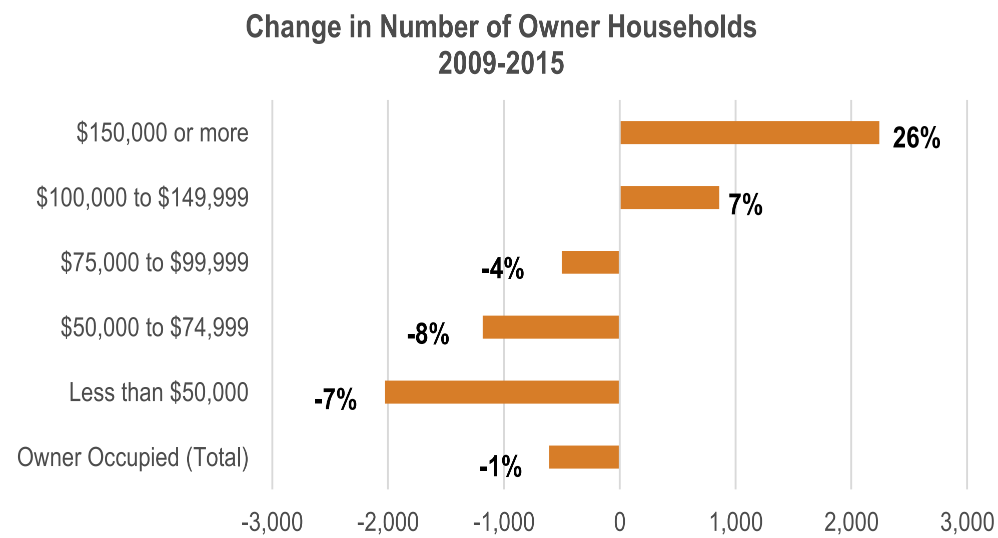
Source: U.S. Census Bureau

RENTERS COMPRISE ALL NET NEW GROWTH

Vast majority of household formation is among high income earners







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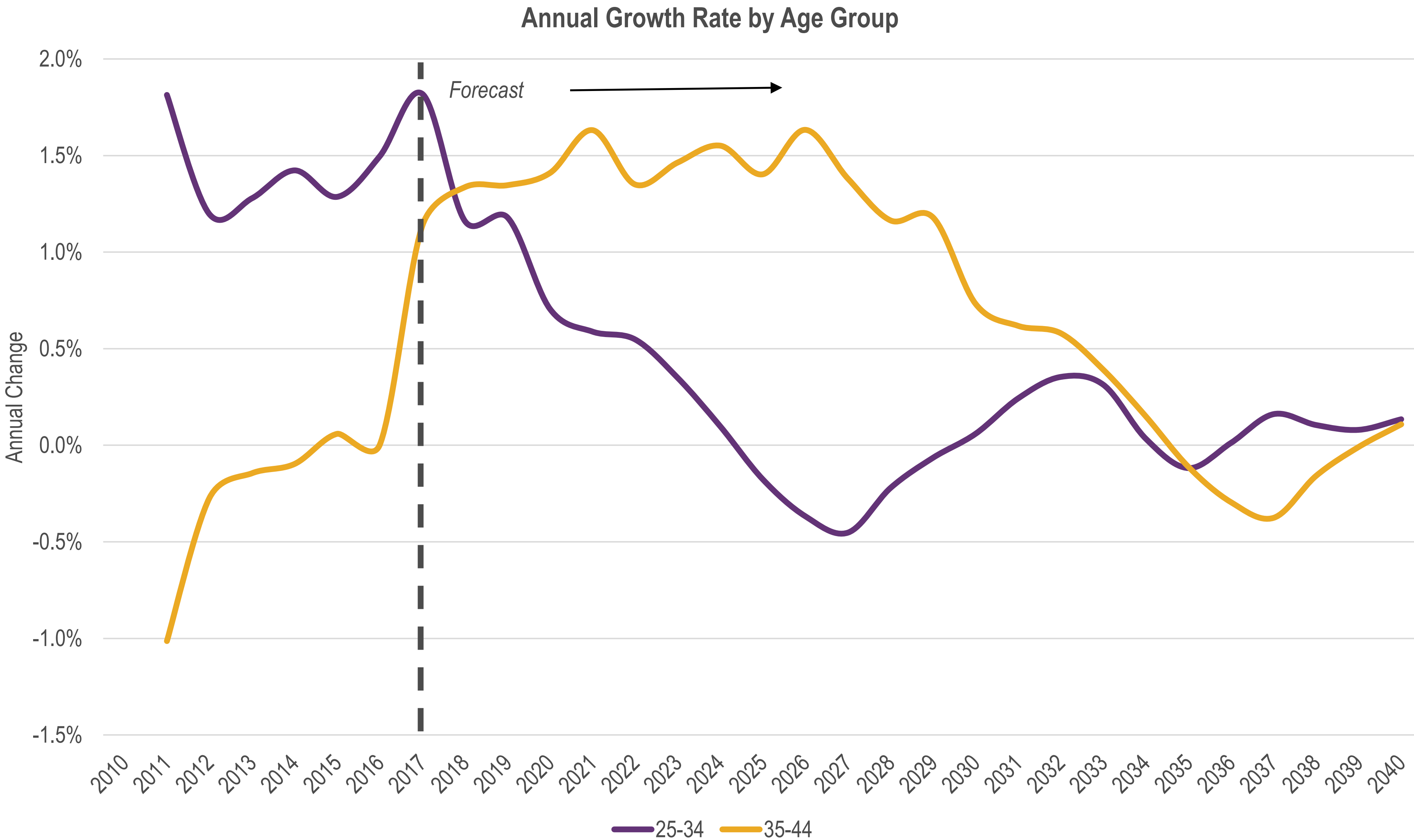
Source: U.S. Census Bureau

ACCELERATING TOWARD MIDDLE ADULTHOOD…

2018 is the first year in which ages 35-44 growth exceeds ages 25-34 growth



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Source: U.S. Census Bureau

RENTAL HOUSING “TAXONOMY”

Low-density products likely better serve 30+-something households

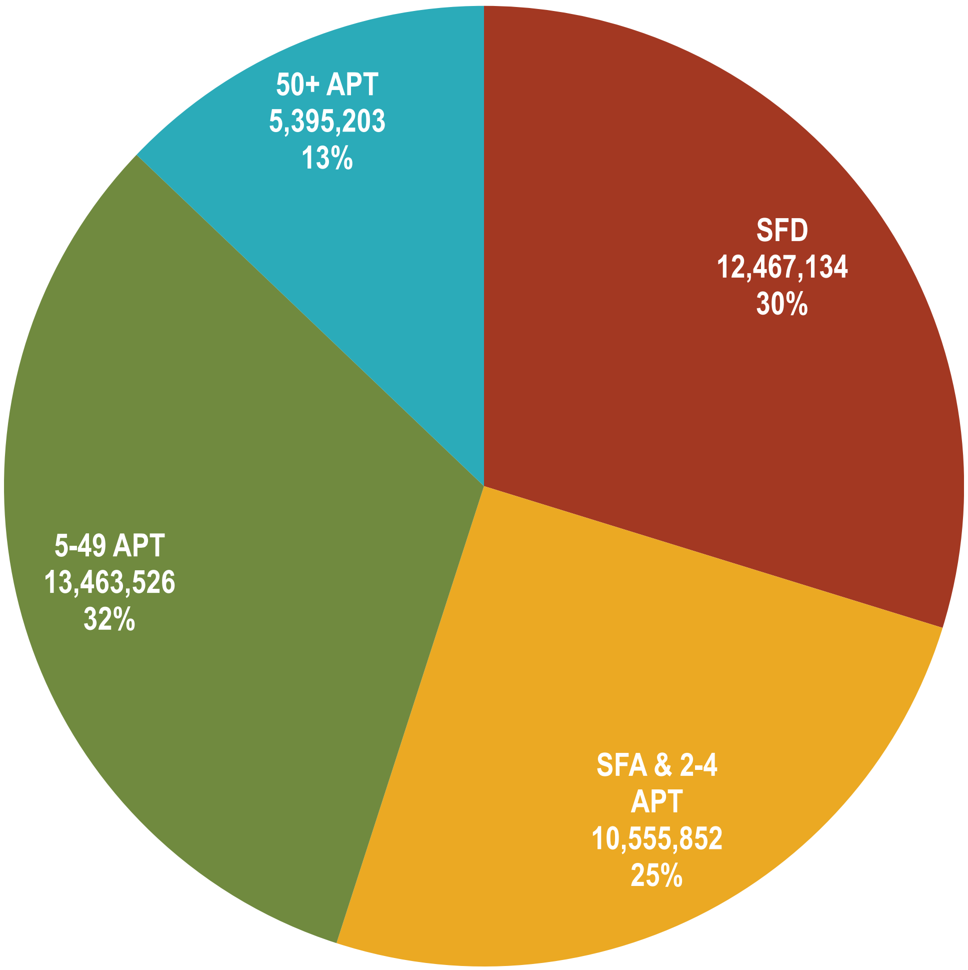
	COMMUNITY TYPE	DESCRIPTION	DENSITY (DU/ACRE)	BUILDING TYPES	TYPICAL NEW COMMUNITY SIZE	SETTING
Multifamily	**Large Apartment Community**	Apartment communities with 50+ units that offer a variety of amenities including: a swimming pool, fitness center, 24-hour maintenance, controlled access, etc.	50-300	High-rise, Mid-rise, Wrap, Mixed-Use Podium	200+ Units	Urban / Suburban
Multifamily	**Mid-sized Apartment Community**	Apartment community ranging from 5-49 units. Generally offer fewer amenities than their larger counterparts	20-50	Wrap, Mixed-Use Podium, Garden	Varies	Urban / Suburban
Low-Density	**Small Multifamily Community**	Consists of multifamily buildings with two, three, or four attached units. Typically, units in a duplex and triplex are constructed side-by-side while those in a quadraplex are constructed back-to-back or two over two	20-30	Duplexes, Triplexes, Quadplexes	Varies	Urban / Suburban
Low-Density	**Single-Family Attached Community**	Consists of single-family residences built side-by-side in a row with at least one shared wall. Each home technically sits on a different plot of land	10-20	Townhomes	50 homes	Urban / Suburban
Low-Density	**Single-Family Detached Community**	Consists of free-standing single-family residences	1-10	Single-Family Detached Homes	50 homes	Suburban

Source: RCLCO

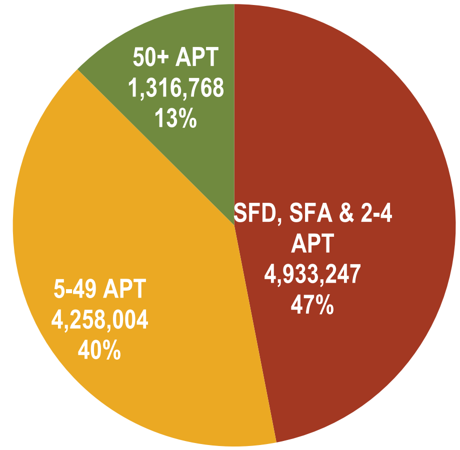
MOST RENTALS ARE LOW-DENSITY

More than half of the current rental housing stock is single-family or townhome

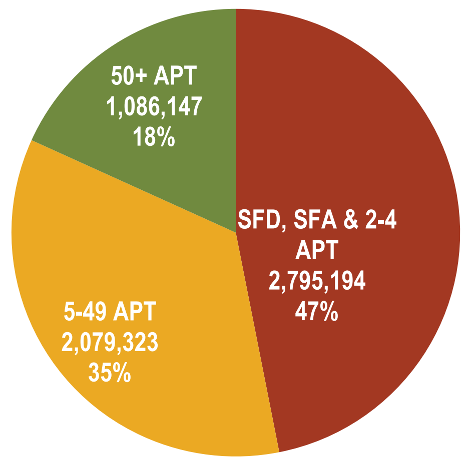
Current Renter-Occupied Units by Product Type



Renter-Occupied Units Built 1980 to 1999



Renter-Occupied Units Built 2000 or Later



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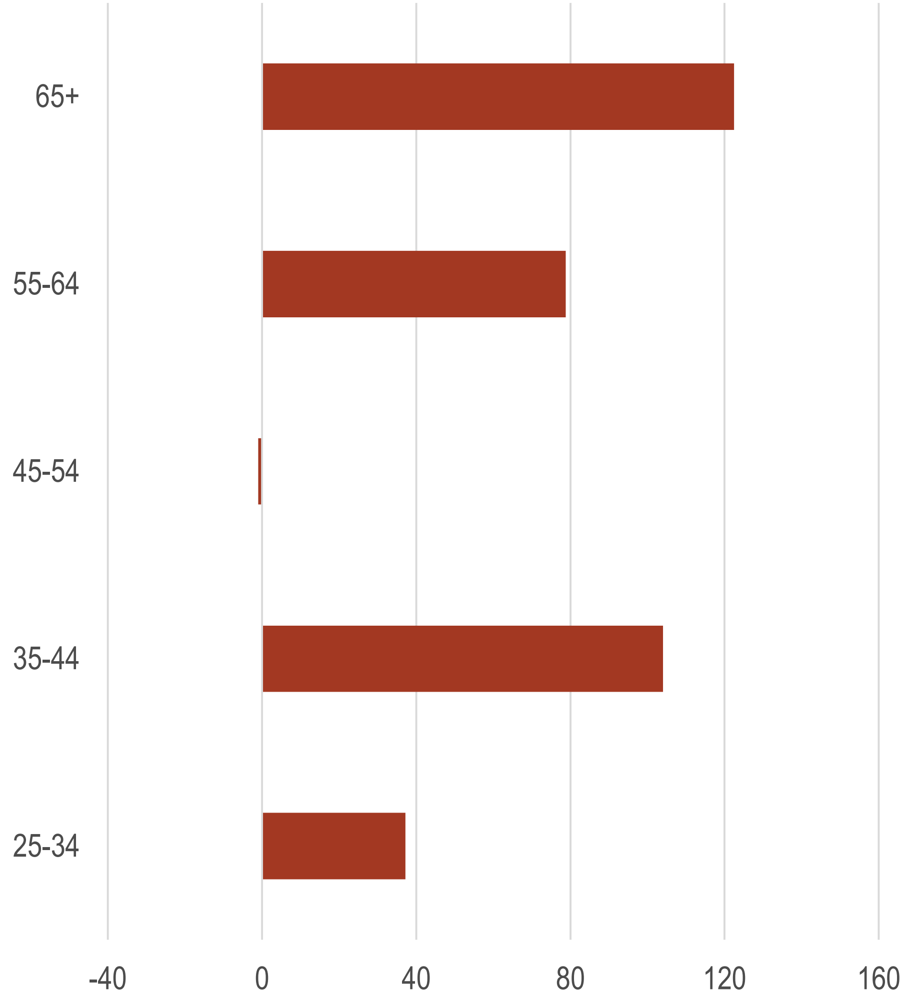
Source: American Community Survey 2014 1-Year Estimates

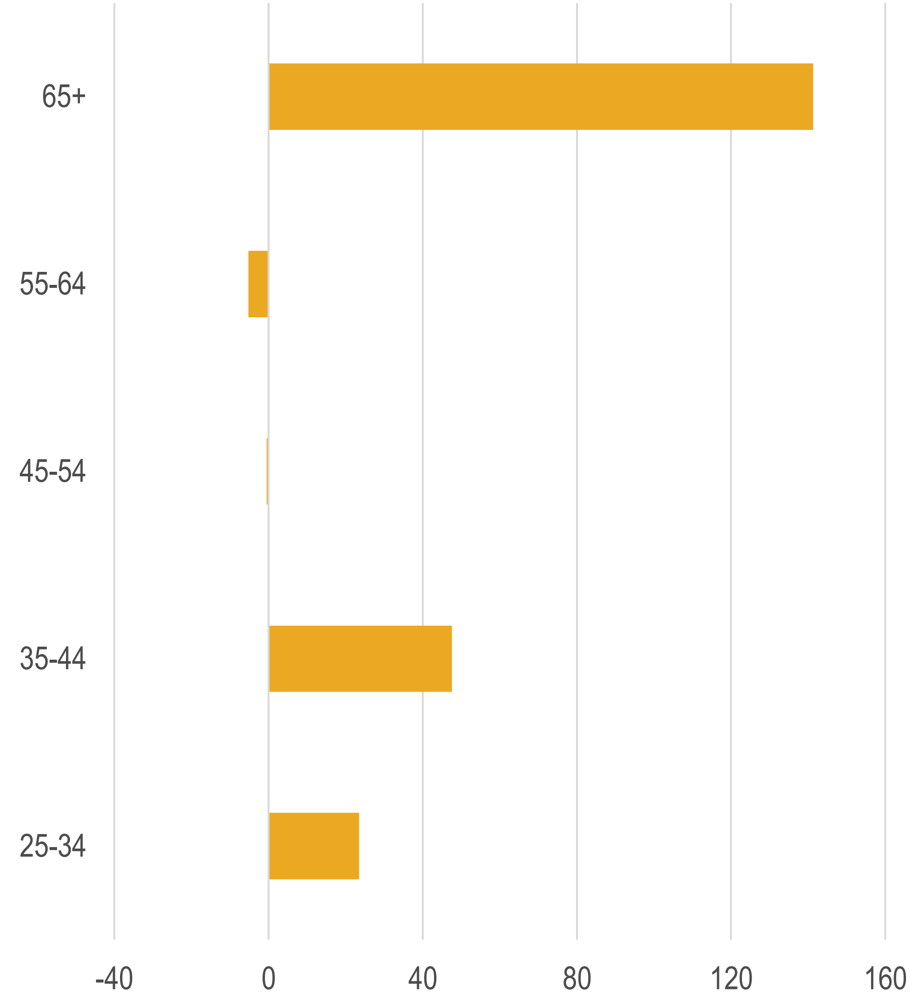
DEMAND FOR RENTAL HOUSING BY AGE

Among renters, younger households significantly more likely to demand low-density

Average Annual Low-Density Rental Housing Demand Segmented by Age (000s, Through 2030)



Average Annual Multifamily Demand Segmented by Age (000s, Through 2030)



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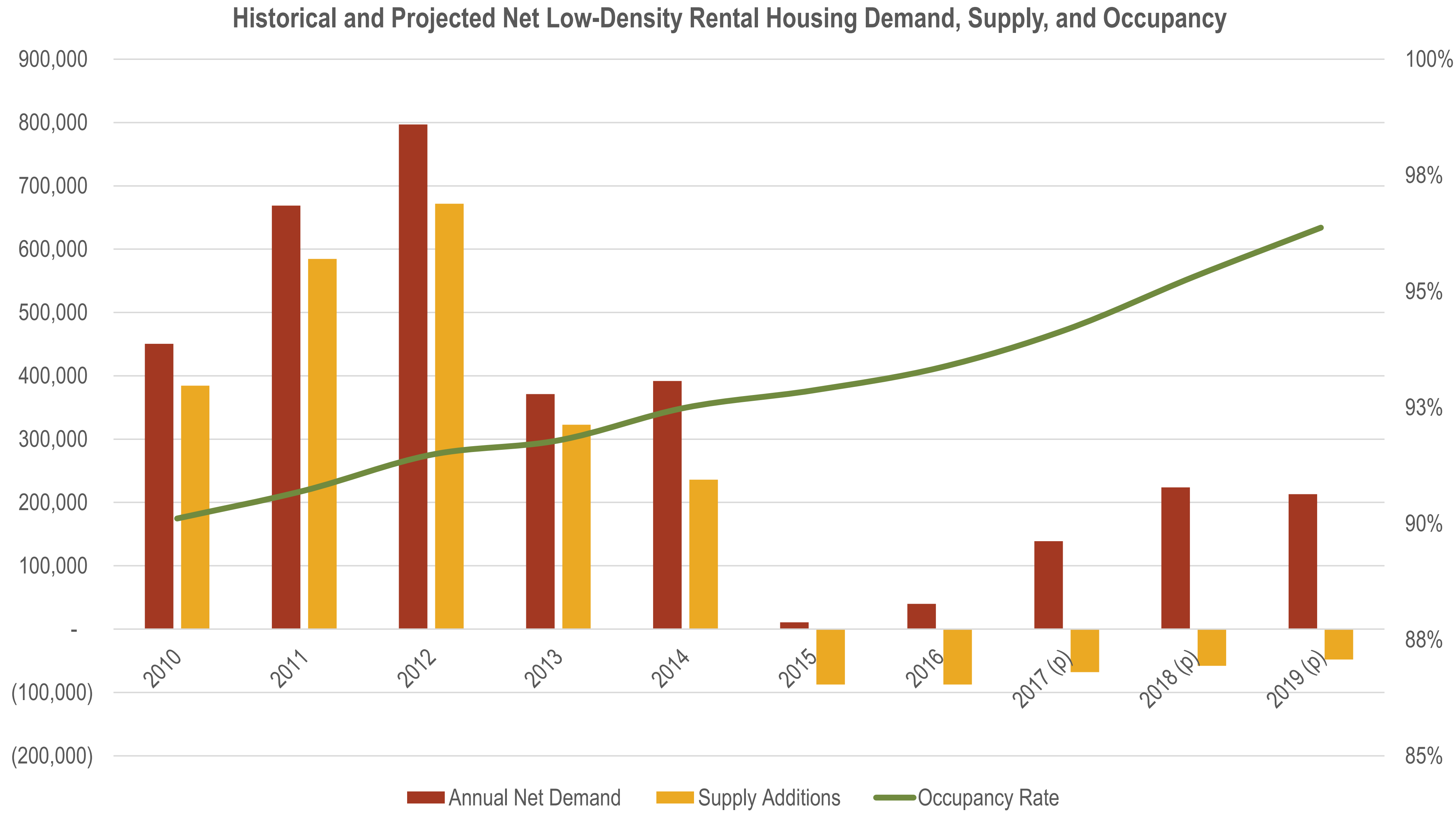
Source: RCLCO

DEMAND FOR LOW-DENSITY MODERATES

But supply goes negative



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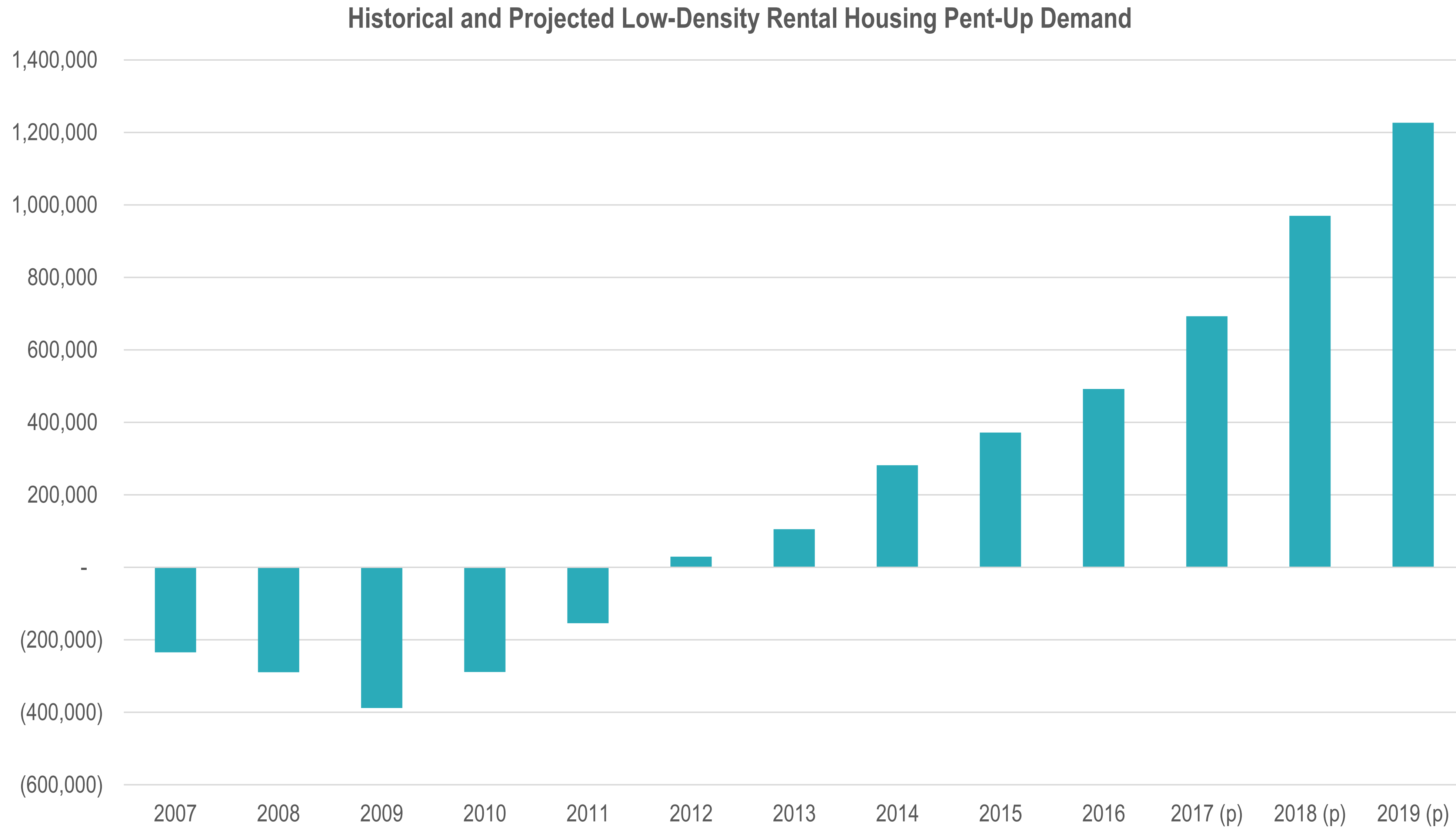
Source: RCLCO

GROWING PENT-UP DEMAND

Potential 1,000,000+ shortage by 2019



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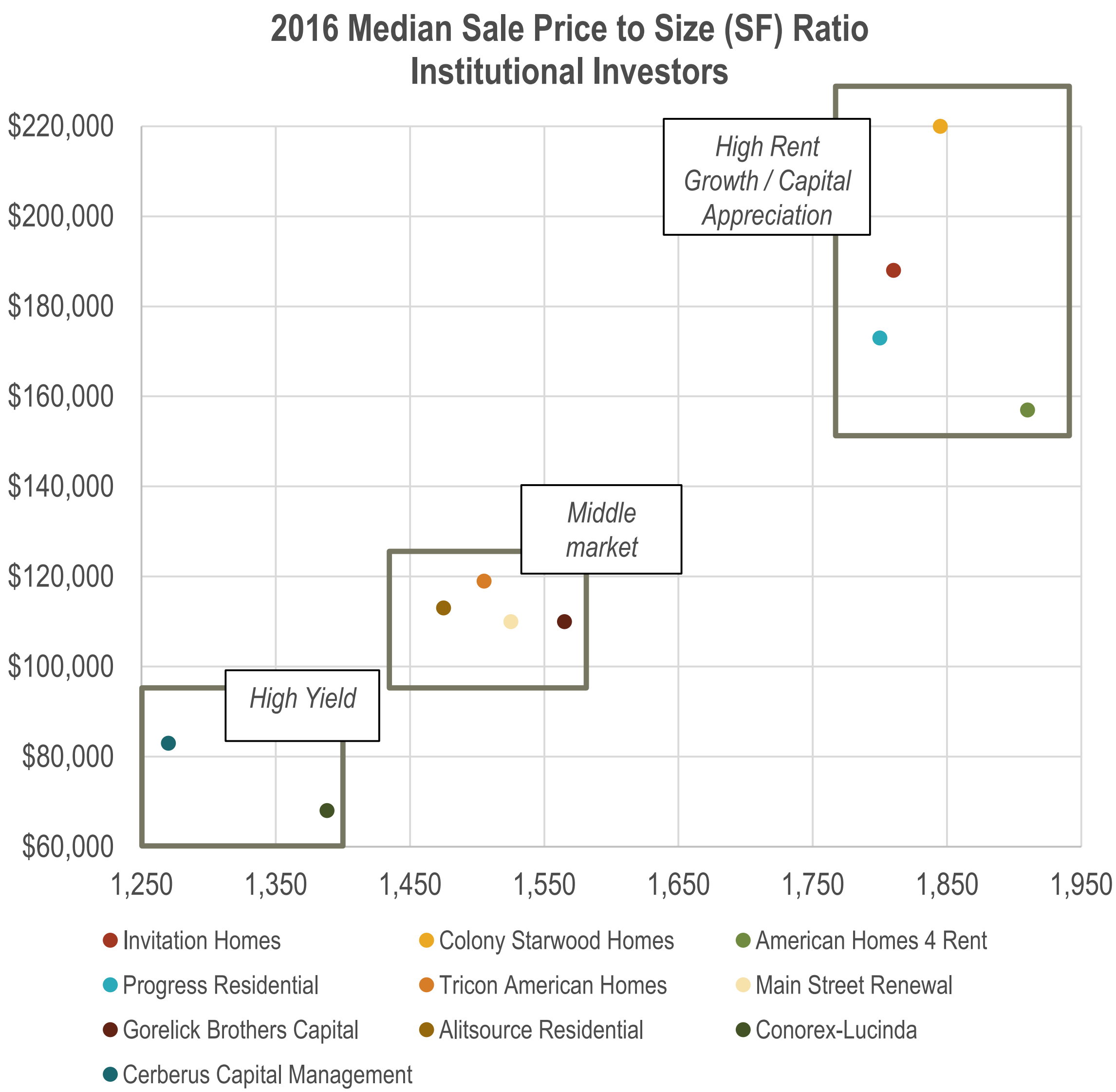
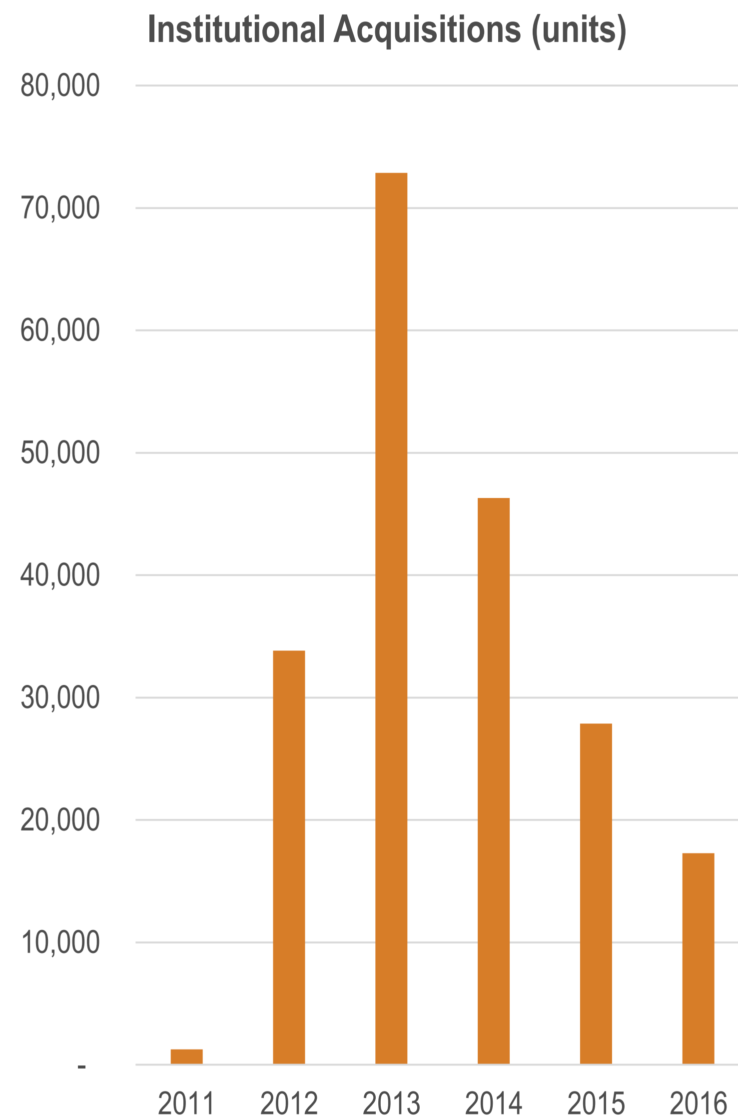
Source: RCLCO

INVESTORS HAVE STEPPED IN TO FILL THE GAP

Acquisitions are slowing, though, as home prices increase





Source: Amherst Capital

ADDITIONAL OPPORTUNITIES FOR INNOVATION

Purpose-built low-density rentals, wholesale purchasing from homebuilders, etc.

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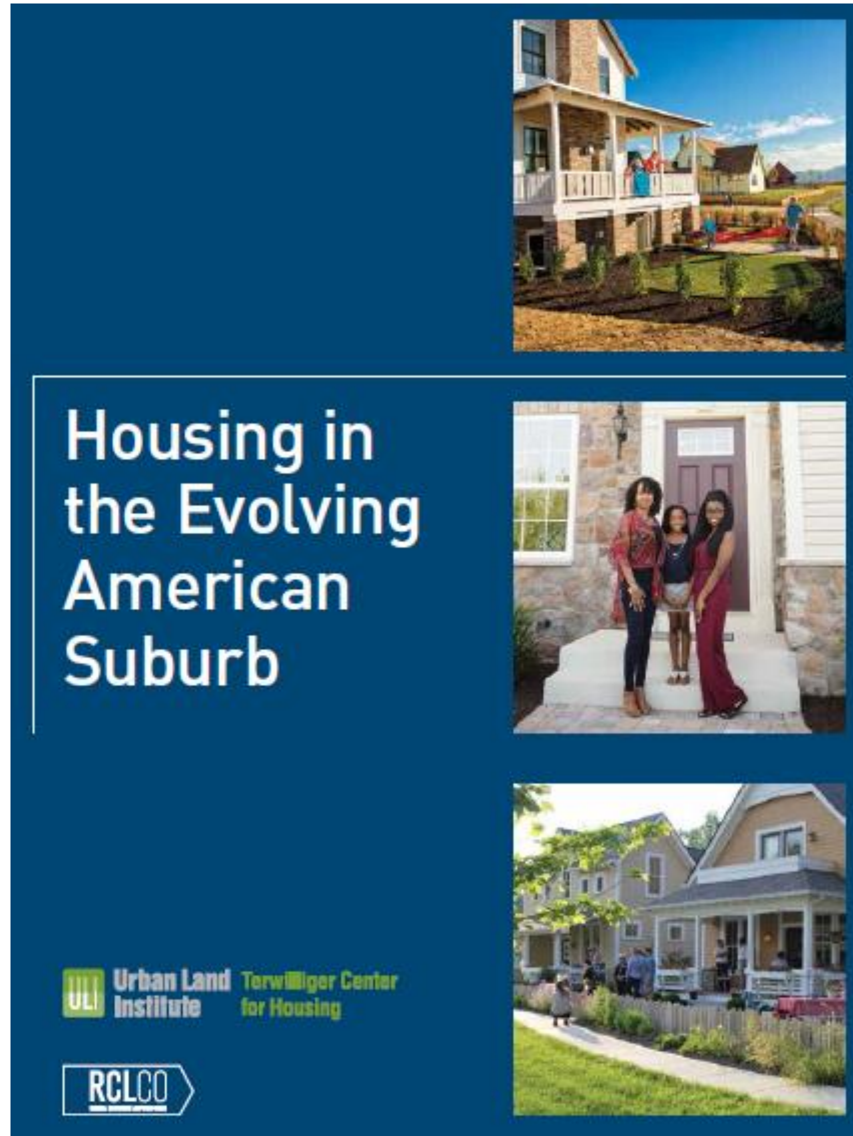
Source: NexMetro

WRAP-UP

IMPLICATIONS AND QUESTIONS

- Tremendous housing demand in the next decade
- Housing demand is dynamic (always the case, but more so, and more opportunity and sophistication to deliver according to it)
- Rental products should be drivers, not afterthoughts
  - Do the economics work?
  - How should they be integrated into the rest of the community?
  - What's the right capital structure?
- Lots of opportunities in the suburbs, but cookie-cutter approach won't work
  - Need to respond (or create) specific suburban character
  - Opportunity to deliver to diverse audience
  - Can you find the right land?



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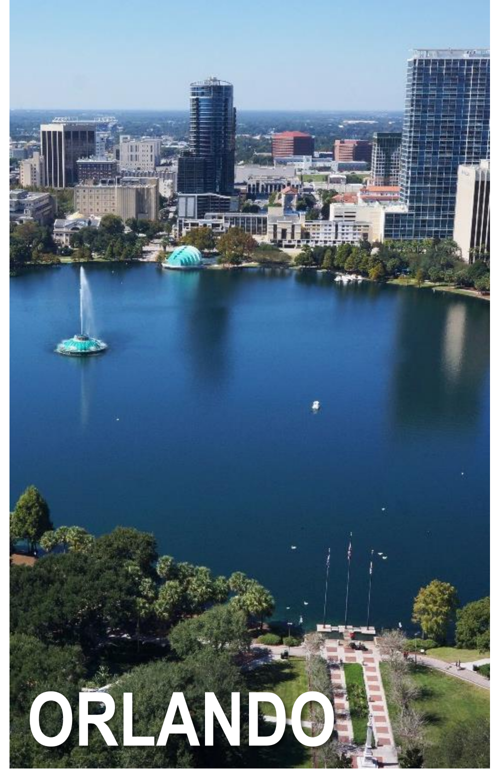

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