

FRIDAY ROUND-UP WITH RCLCO: Multifamily Impact and Outlook

May 1st, 2020

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AGENDA

- ▶ Key Headlines & Latest Insights

- ▶ Cycles & The Apartment Market

 - » What can we learn from prior cycles regarding apartment performance by market, if anything?

 - » Which apartment markets suffer the most during past recessions and which outperform?

- ▶ RCLCO Point-of-View

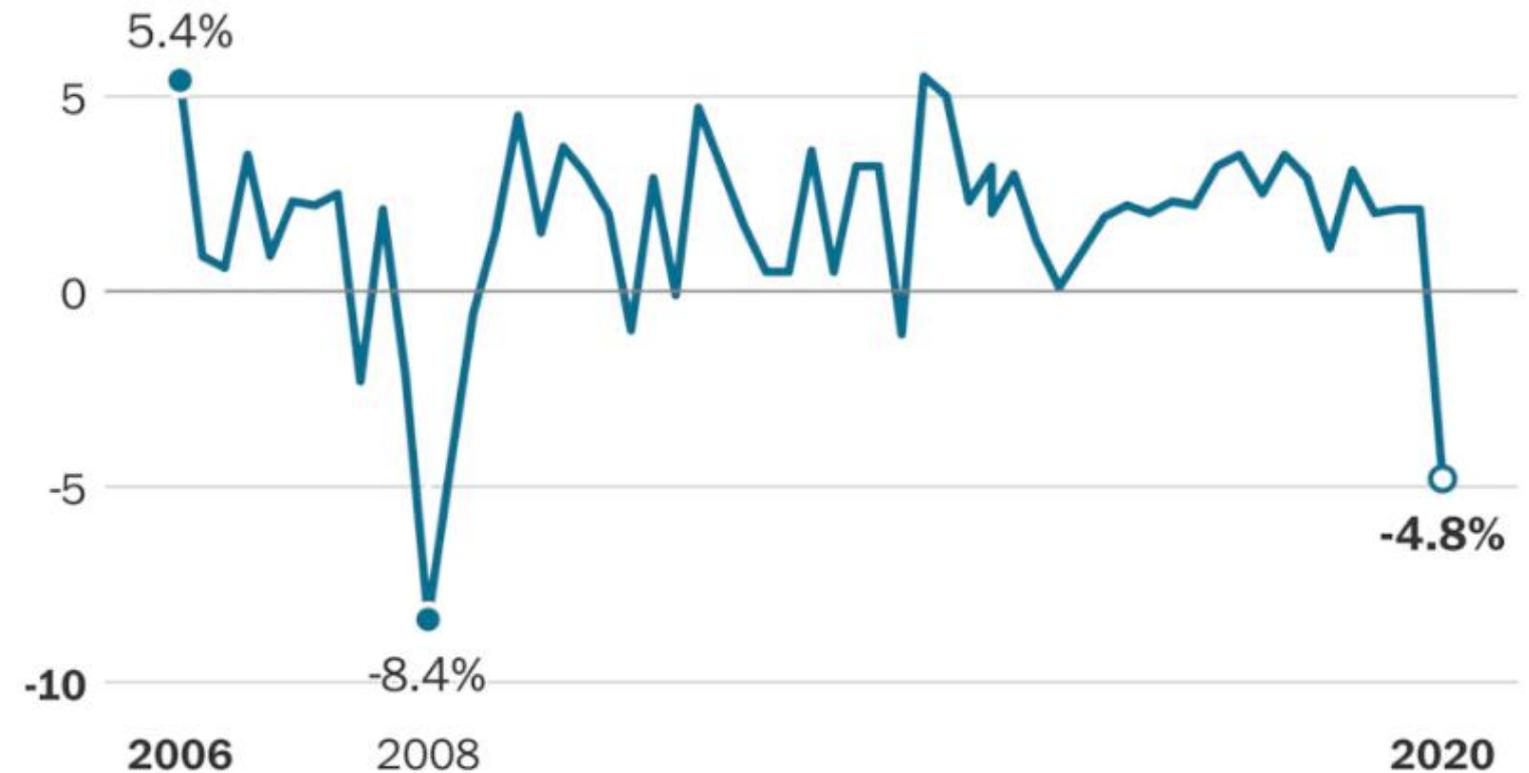
KEY HEADLINES & LATEST INSIGHTS

COVID-19 & GDP GROWTH

Updated April 29, 2020, BEA

- ▶ **U.S. GDP shrank -4.8% in Q1 2020***
 - » Steepest contraction since Q4 2008
 - » And yet, the worst is likely still to come, with a Q2 decline of -30% or more...
 - » Economists expect the Commerce Department to revise this even lower as more data becomes available to perhaps -8% to -11%
 - » Personal consumption declined -7.6% in Q1 2020
 - » Business investment declined -8.6%

U.S. economy shrank 4.8 percent in the first quarter, the worst decline since the Great Recession



* Seasonally and inflation adjusted – current-dollar GDP declined -3.5%

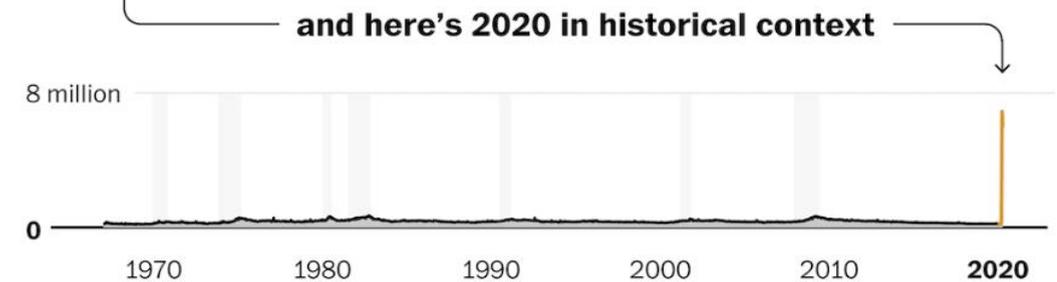
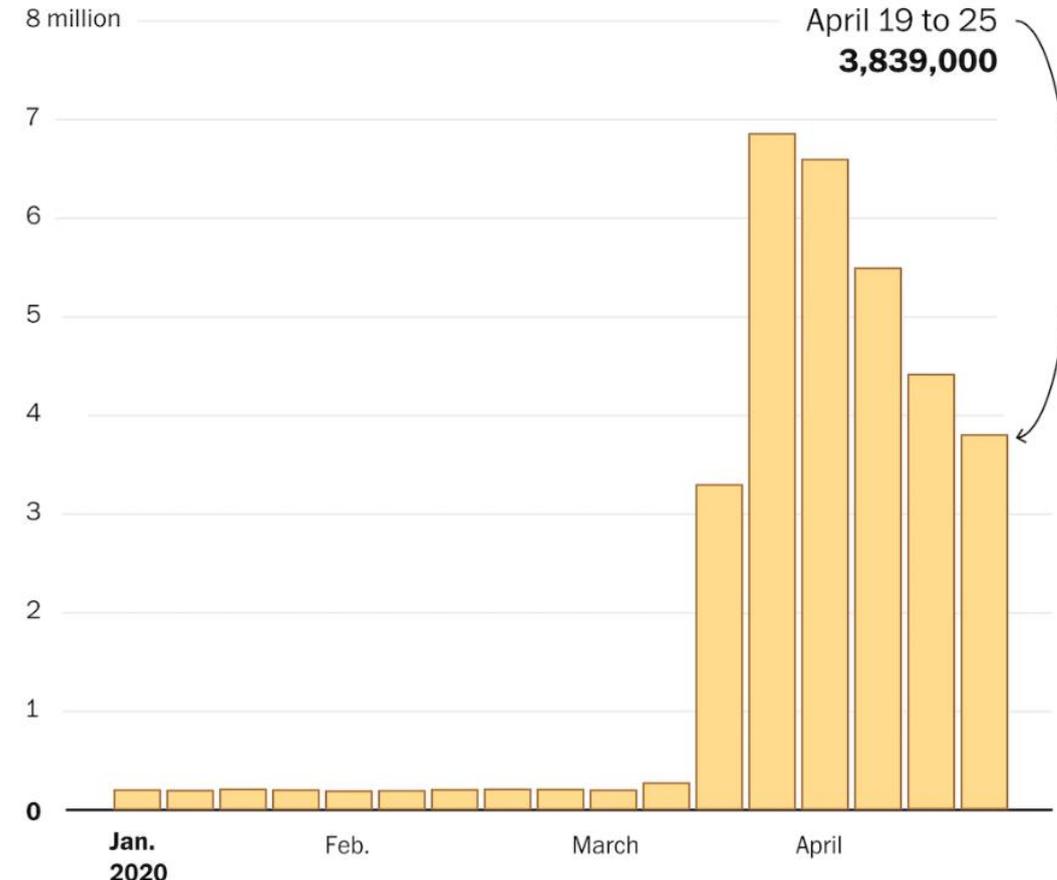
SOURCE: Bureau of Economic Analysis; RCLCO
Multifamily Impact and Outlook | May 1, 2020 | 5

COVID-19 & UNEMPLOYMENT

Updated April 30, 2020, Labor Department

- ▶ An additional **3.8 million** Americans applied for unemployment benefits the week April 19-25
- ▶ More than **30.3 million** have files in the 6 weeks since a national emergency was declared
- ▶ Economist estimate the unemployment rate sits somewhere between **15%** and **20%**
 - » For comparison, the peak in the last recession was 10%; and the peak of the Great Depression was 25%
- ▶ The outbreak and subsequent recession have wiped away all jobs created since the 2008 financial crisis.

U.S. initial claims for unemployment insurance in 2020

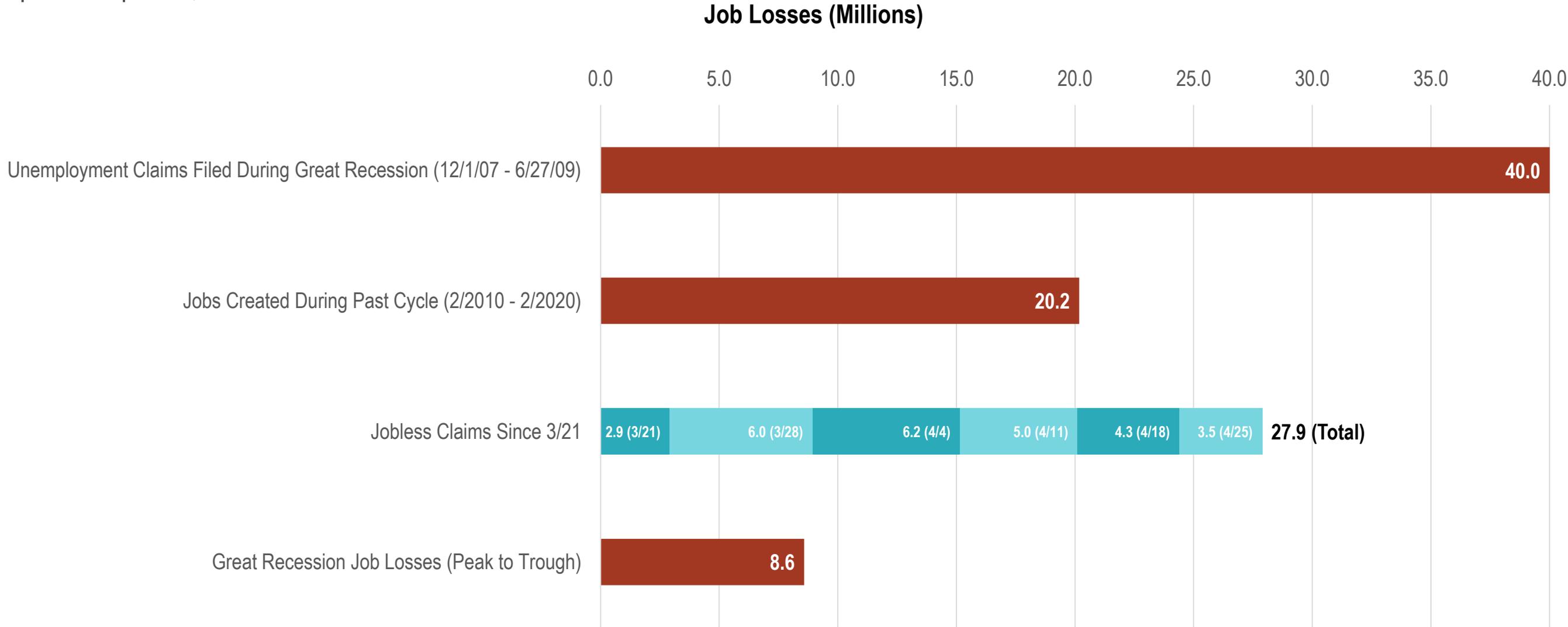


Note: Seasonally adjusted
Source: Labor Department

THE WASHINGTON POST

COVID-19 & THE CURVE

Updated April 30, 2020



COVID-19 & CONSUMER CONFIDENCE

Updated April 28, 2020, The Conference Board

► Consumer Confidence Index declined further in April, following an sharp decline in March

- » The Index tumbled to 86.9, down from 118.8 in March
- » The Present Situation Index – based on consumers’ assessment of current business and labor market conditions – plunged from 167.7 to 76.4 – an unprecedented 90-point drop
- » The Expectations Index – based on the future outlook – improved slightly from 86.8 in March to 93.8 in April
- » Consumers drive approximately 70% of all economic activity in the U.S.

U.S. Economic Indicators

▼ Consumer Confidence	- 31.9 pts
▼ Employment Trends Index	- 44.73 %
▼ Help Wanted OnLine	- 1.5 %
▼ Leading Economic Index	- 6.7 %
▼ Measure of CEO Confidence	- 9.0 pts

Global Consumer Confidence Indicators

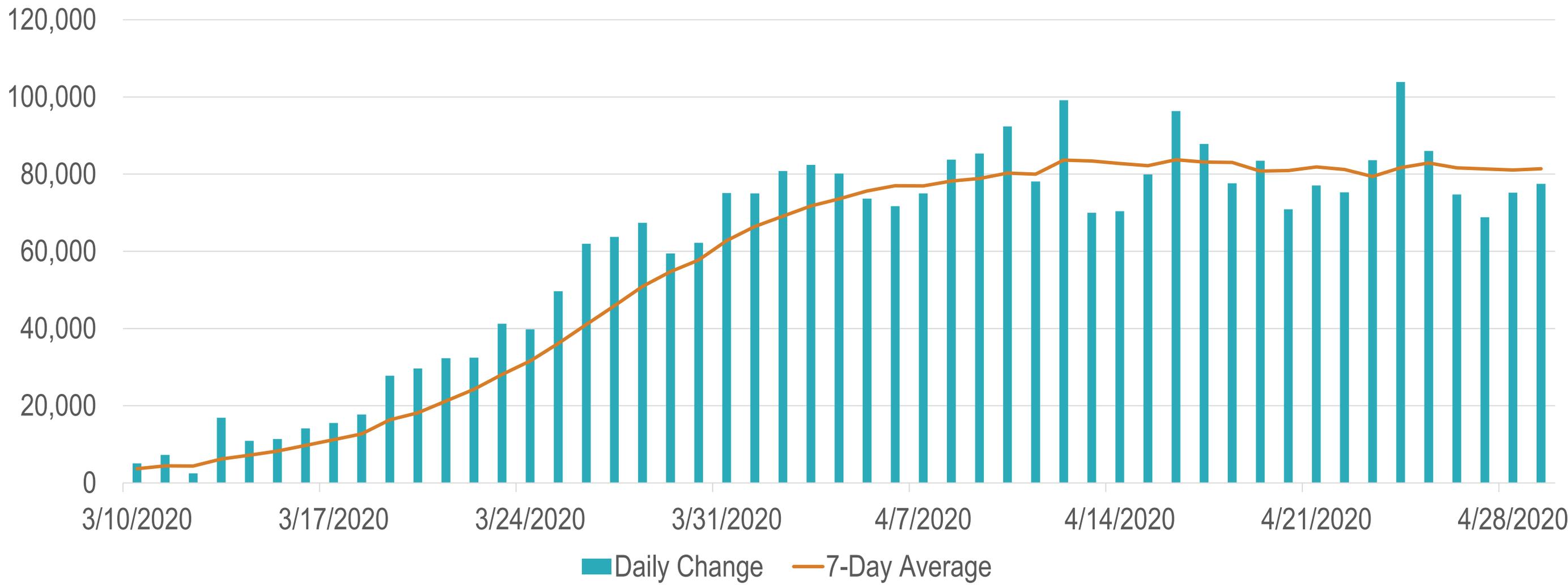
▼ Global	-1pts
▲ Asia-Pacific	+4pts
▲ Europe	+2pts



COVID-19 & THE CURVE

Updated April 29, 2020

Global Cases

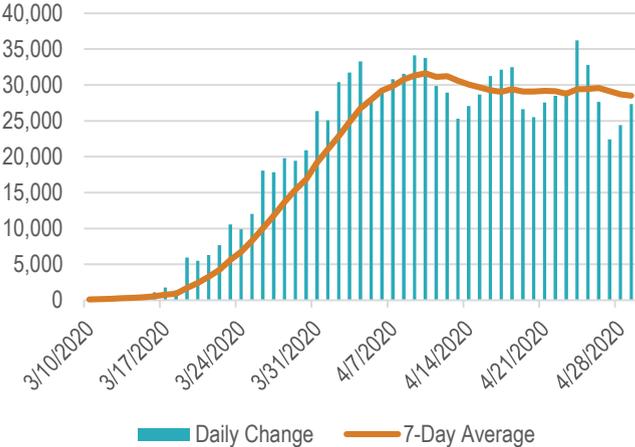


COVID-19 & THE CURVE

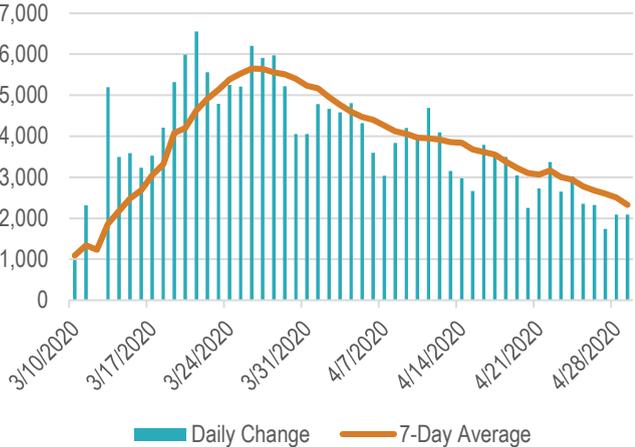
Updated April 29, 2020

STABILIZING/TRENDING BETTER

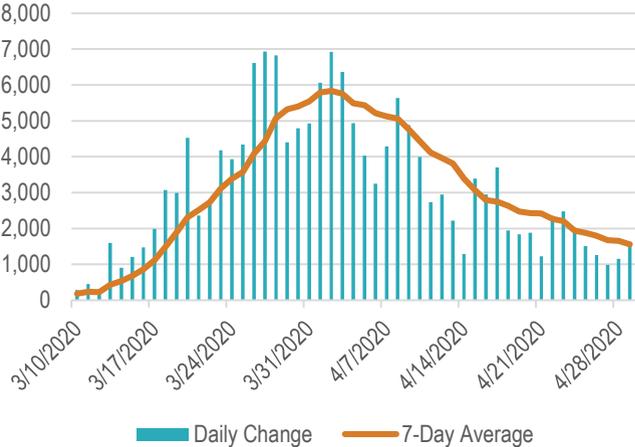
United States



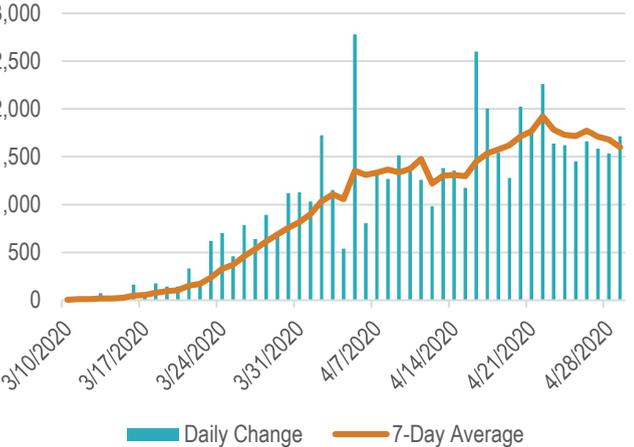
Italy



Germany

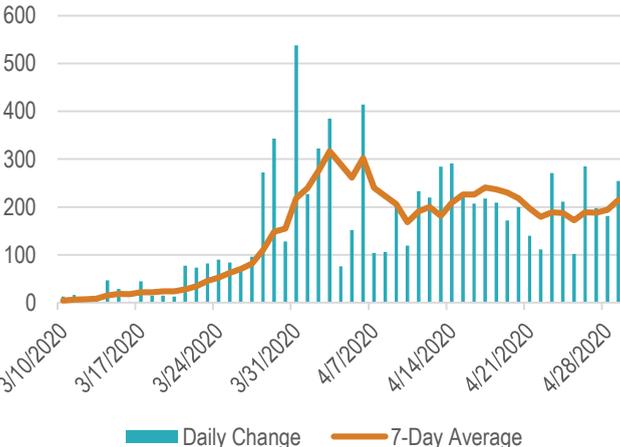


Canada

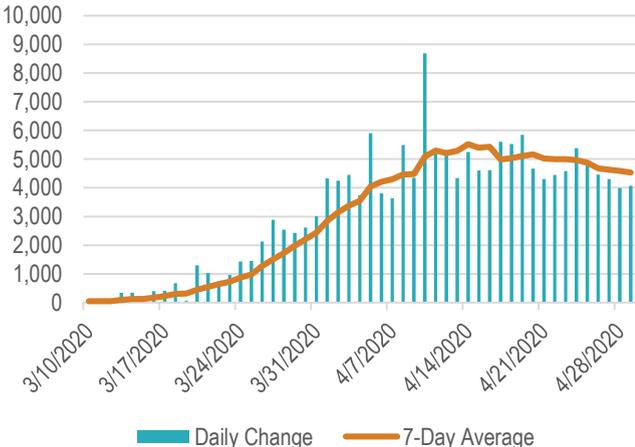


UNCLEAR/TRENDING WORSE

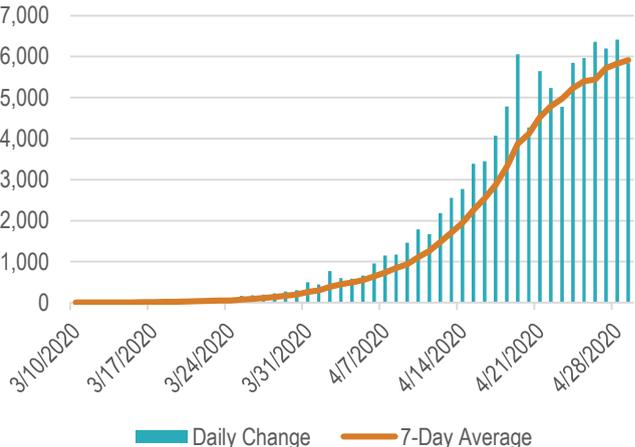
Philippines



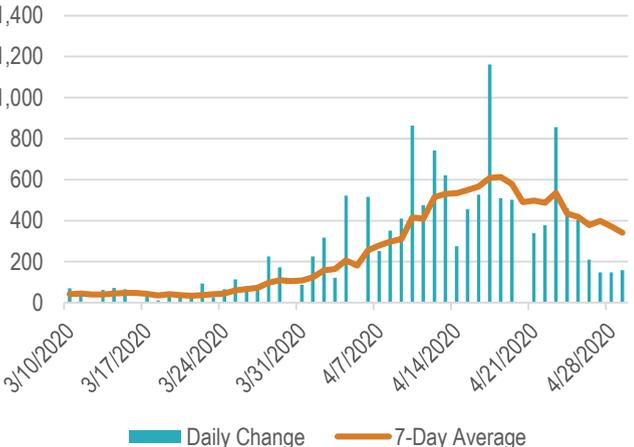
UK



Russia



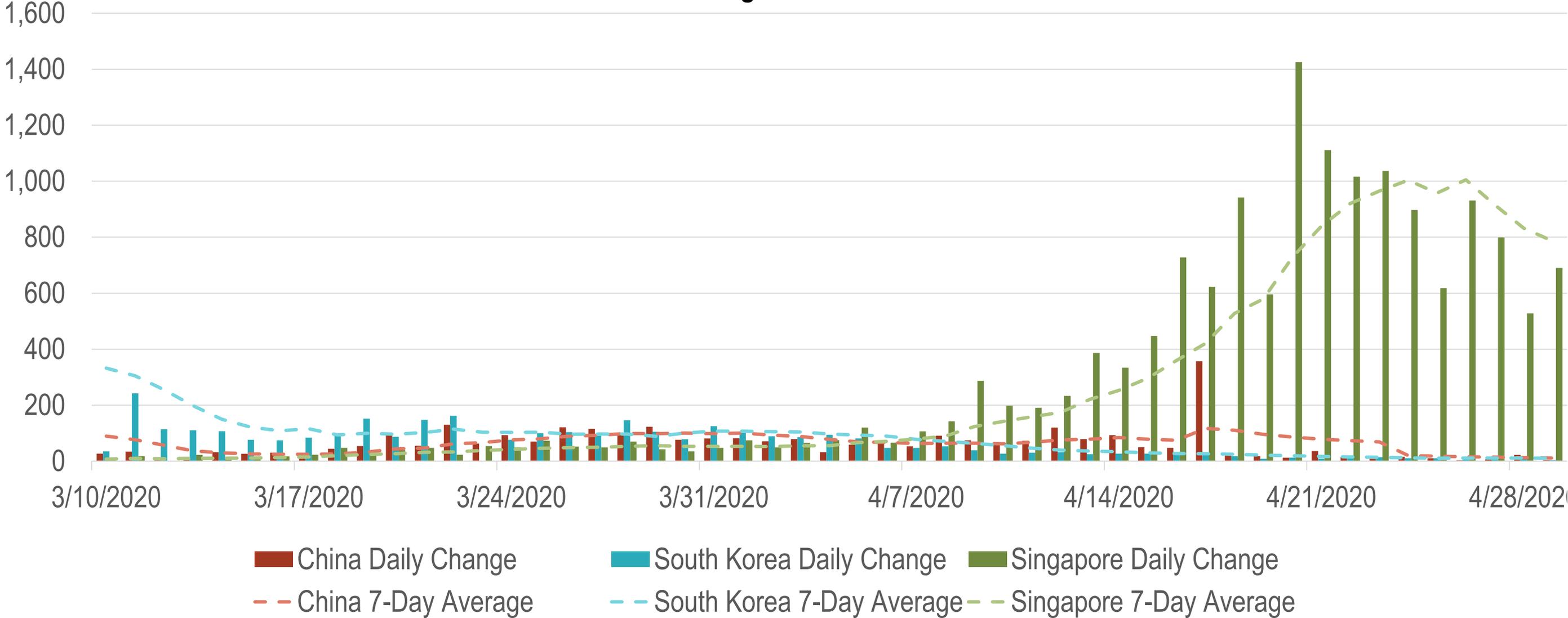
Japan



COVID-19 & THE CURVE

Updated April 29, 2020

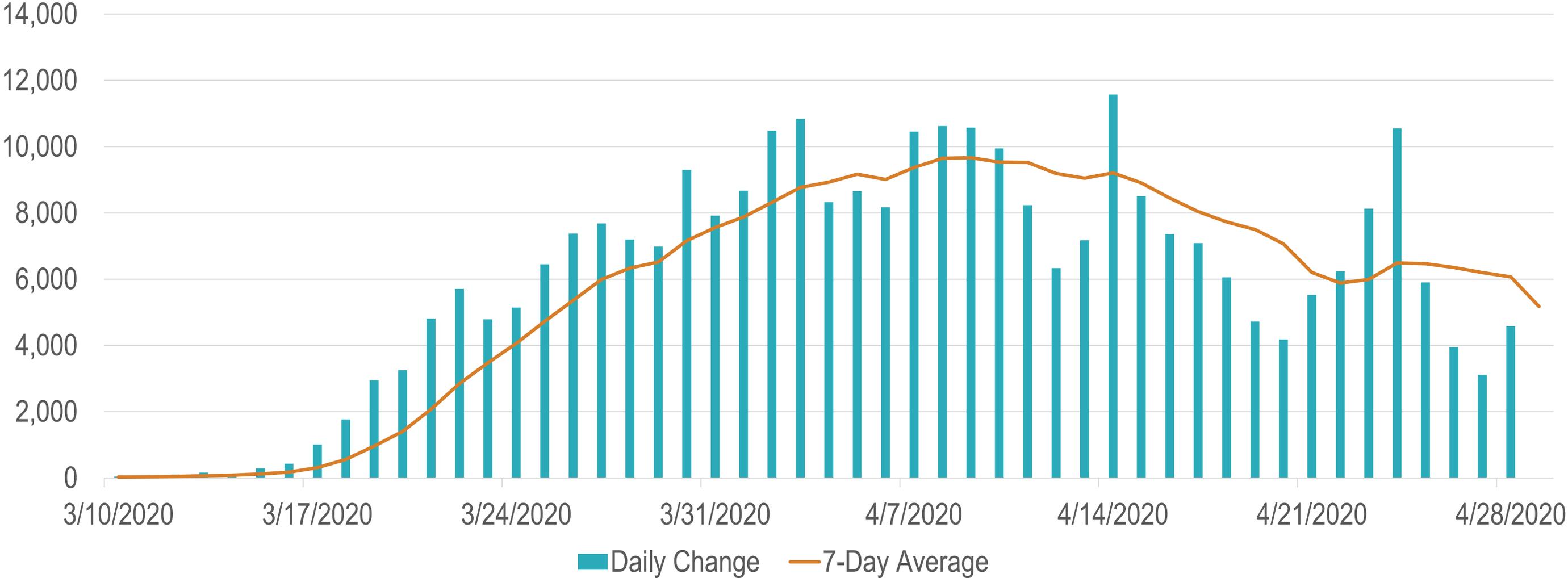
Resurgence in Asia



COVID-19 & THE CURVE

Updated April 29, 2020

New York



COVID-19 & RENT COLLECTIONS

RENT COLLECTIONS IN APRIL VARY WIDELY BY ASSET TYPE

- ▶ Apartment: Low 90%
- ▶ Office: Mid 80%
- ▶ Industrial: Low 80%
- ▶ Retail: 30% to 50%
- ▶ Hotel: 0% to 30% (revenues)

COVID-19 & MULTIFAMILY RENT COLLECTIONS

Updated April 29, 2020, NMHC

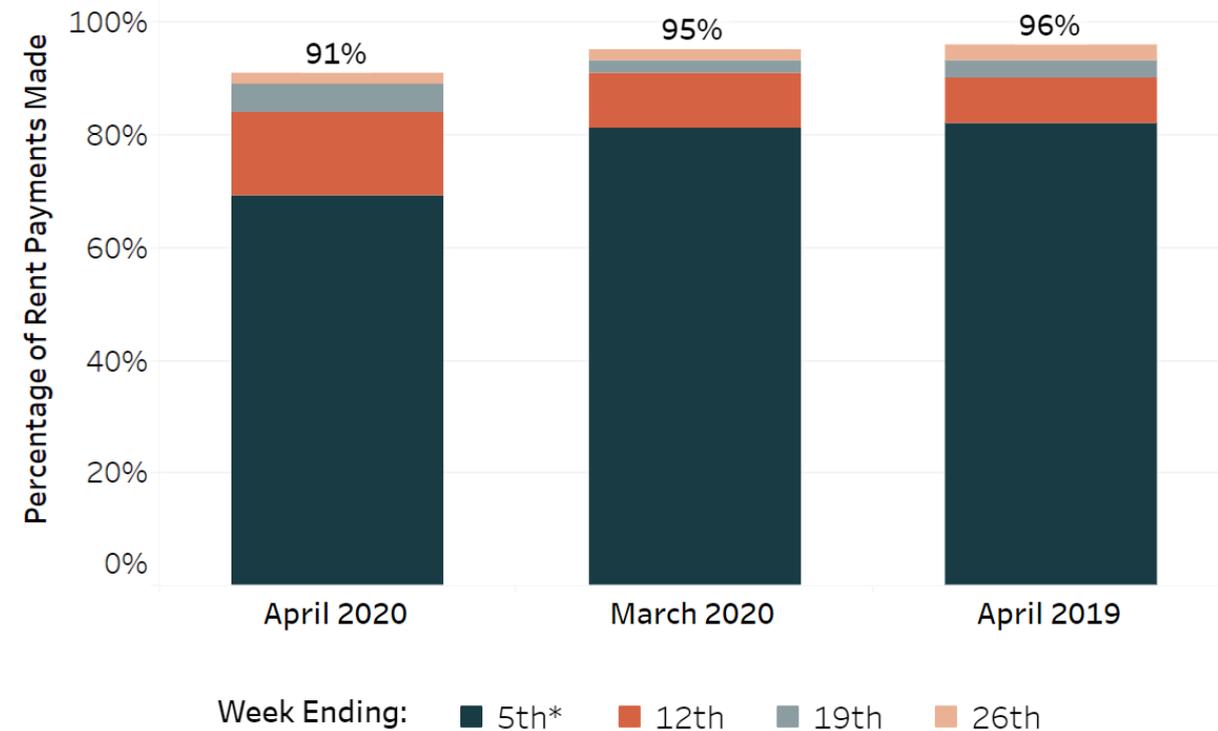
- ▶ **91.5%** of professionally managed apartment households made a full or partial rent payment by April 26
- » This is up **2.8%** points from April 19
- » This compares with **95.6%** of renters made full or partial payments from April 1-26, 2019

APRIL 1-26, 2020



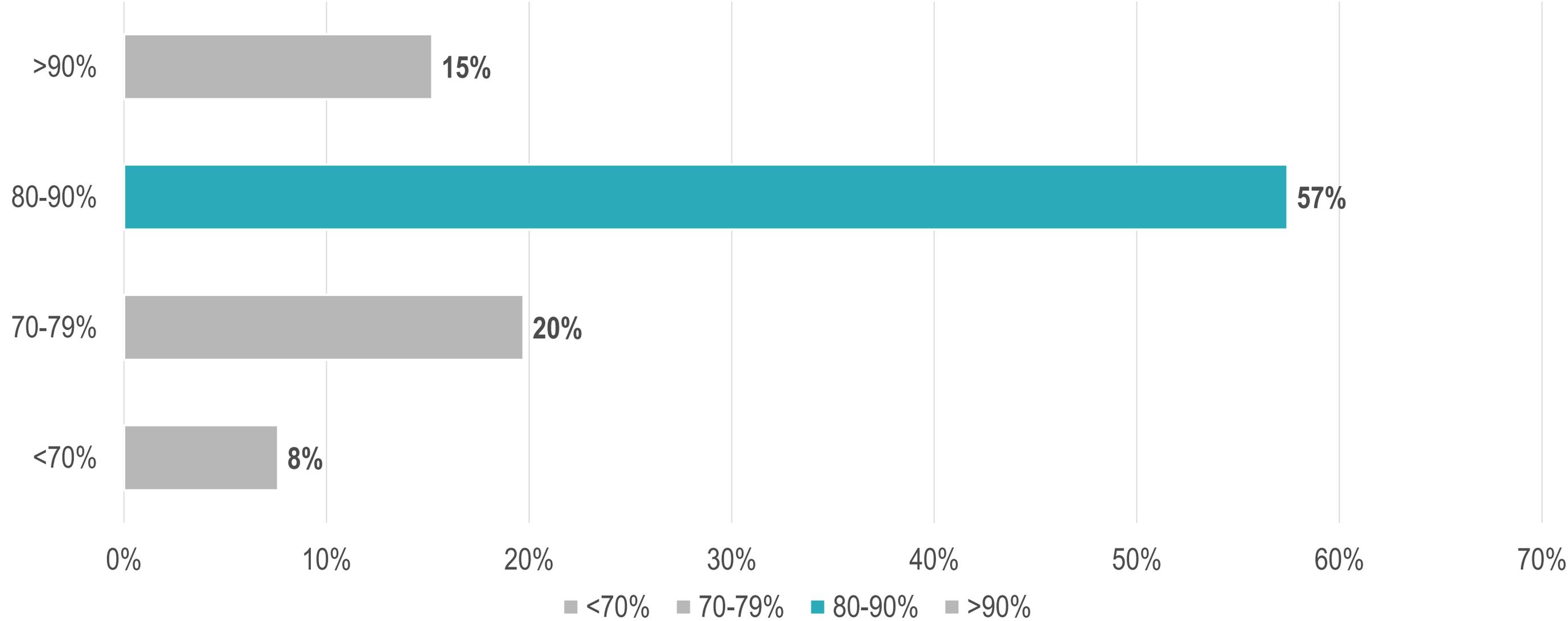
Rent Payment Tracker

**Data collected from 11.5 million apartment units



POLL #1

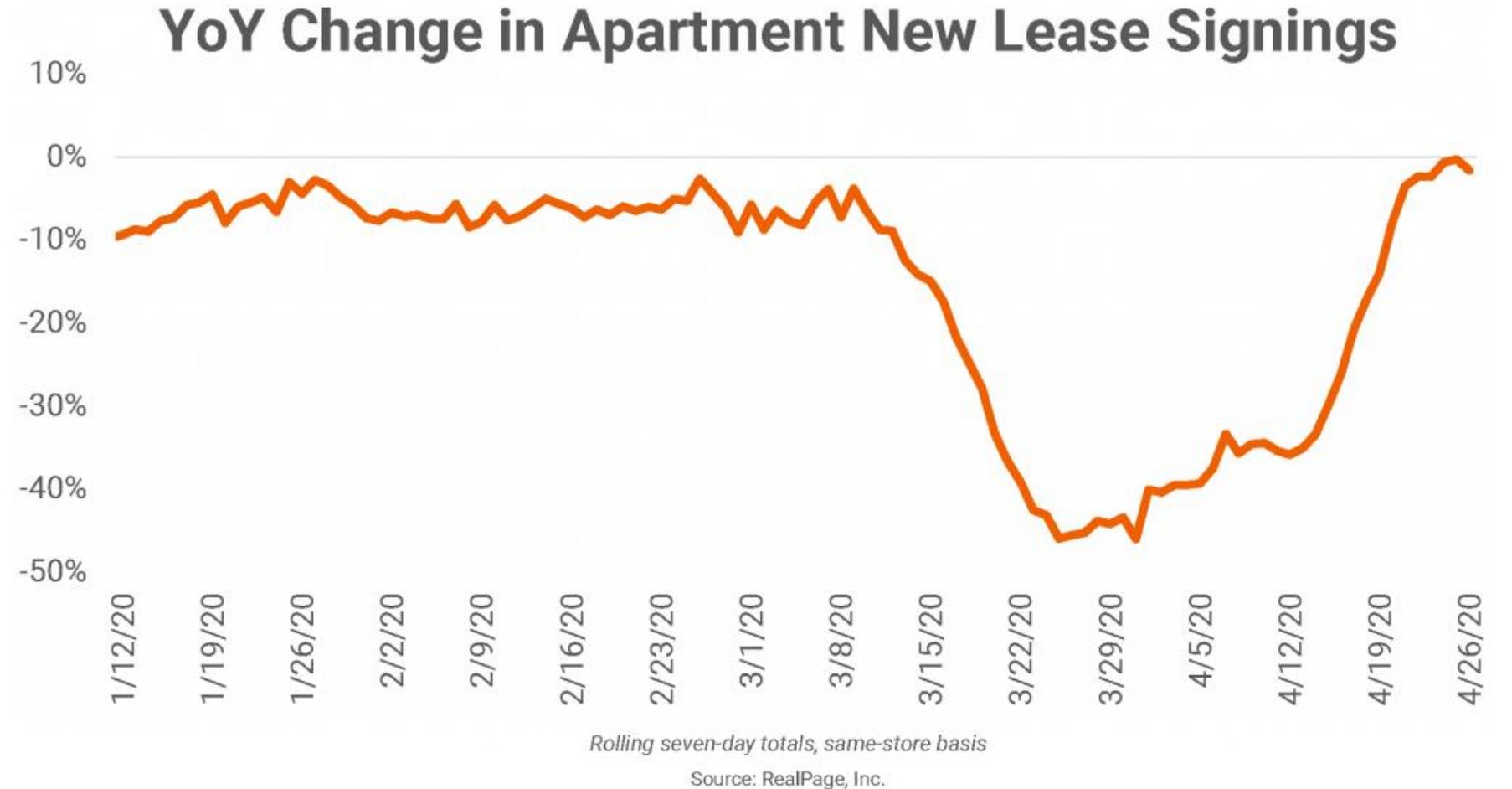
What percentage of apartment rents do you think will be collected in May?



COVID-19 & MULTIFAMILY LEASING ACTIVITY

Updated April 29, 2020, RealPage

- ▶ Continued upward trend in traffic and leasing
 - » Generally on par with same period last year, down only -1.6%
 - » Much better than late March when new leases were down -50%
 - » Class A (-7.9%) properties lag behind for the weekending on April 26
 - » This compares with Class B (+1.2%) and Class C (+8.1%).

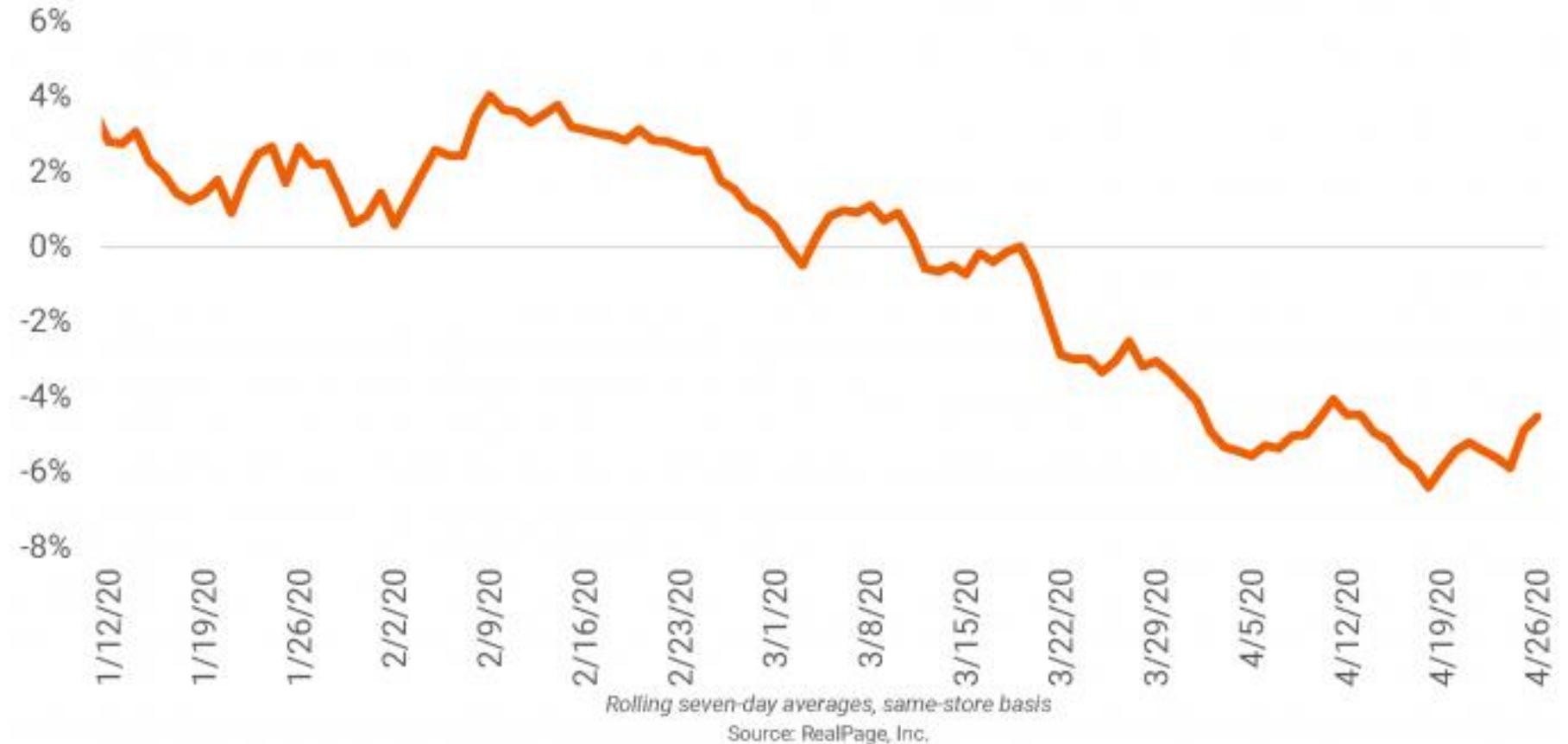


COVID-19 & MULTIFAMILY NEW LEASE RENTS

Updated April 29, 2020, RealPage

- ▶ Rents for executed new leases came in down **-4.5%** year-over-year
 - » The bottom point came on April 18 when rates for the week were down **-6.1%**
 - » In a somewhat counter cyclical pattern, Class A properties lagged B and C
 - › Class A (**-5.4%**) properties also lagged
 - › Class B (**-3.6%**)
 - › Class C (**-1.1%**)
 - » However, Class C property rent collections trails behind A and B

YoY Change in Executed New Lease Rents

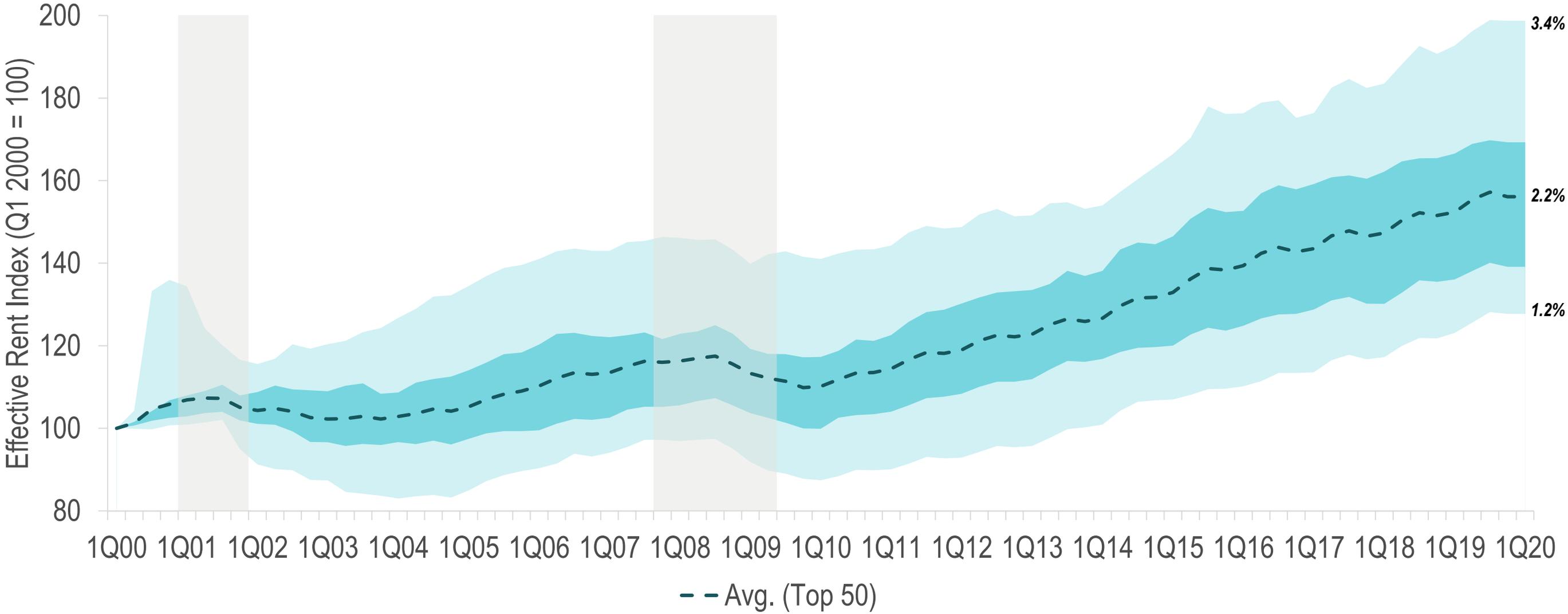


CYCLES & THE APARTMENT MARKET

EFFECTIVE RENT INDEX

Rent Growth (Avg. 2015-2019)	3.5% (1.0% - 7.1%)	38 / 50 Markets Above 2.5%
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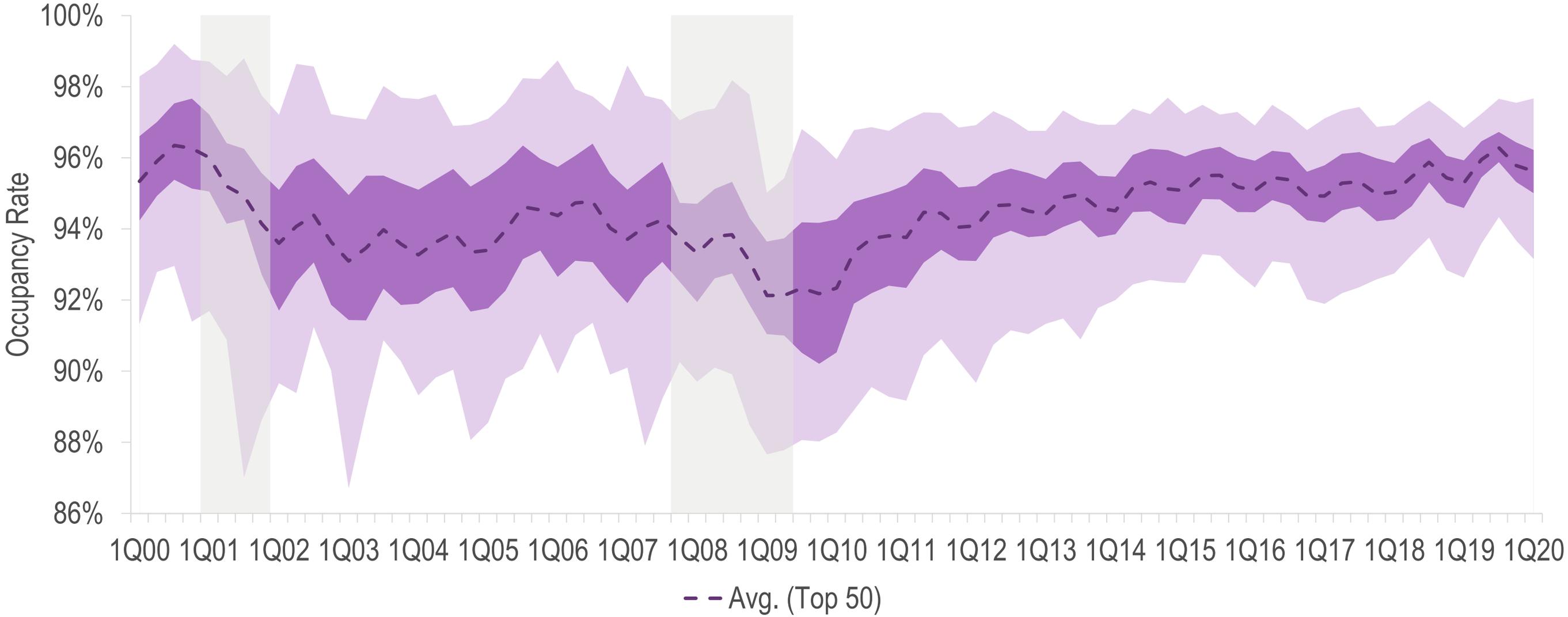
Top 50 Markets



OCCUPANCY

Rent Growth (Avg. 2015-2019)	3.5% (1.0% - 7.1%)	38 / 50 Markets Above 2.5%
Occupancy (Q1 2020)	95.5% (93.1% - 97.2%)	36 / 50 Markets Above 95%

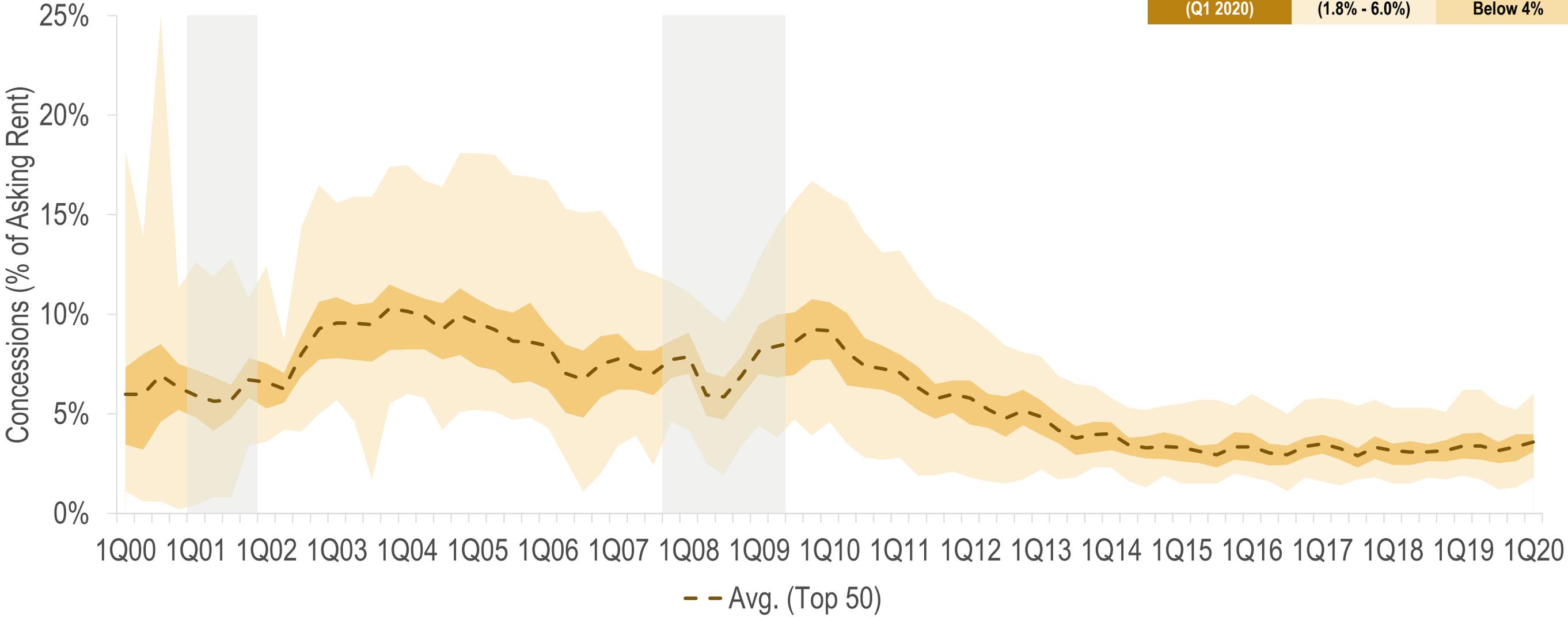
Top 50 Markets



CONCESSIONS

Rent Growth (Avg. 2015-2019)	3.5% (1.0% - 7.1%)	38 / 50 Markets Above 2.5%
Occupancy (Q1 2020)	95.5% (93.1% - 97.2%)	36 / 50 Markets Above 95%
Concessions (Q1 2020)	3.6% (1.8% - 6.0%)	39 / 50 Markets Below 4%

Top 50 Markets



PRIOR RECESSIONS IMPACT ON NATIONAL APARTMENT MARKET

	2001 Recession	2008 Recession
Length of Rent Decline	10 Quarters	5 Quarters
Total Decline from Peak	4.6%	6.5%
Time to Recover to Peak Rent Levels	7 Quarters	7 Quarters
Growth Rate 2 Years from Bottom	3.3% / year	3.8% / year
Minimum Occupancy Rate	93.1%	92.1%
Maximum Concessions	10.6%	8.9%

MARKETS WITH MOST SIGNIFICANT DECLINE IN RENTS

Markets Impacted by Tech Bubble Experienced Most Significant Rent Declines After 2001 Recession

Declines Were More Consistent Across Markets in 2008

2001 RECESSION			
MARKET	RENT DECLINE	MIN OCCUPANCY	MAX CONCESSIONS
USA	-4.6%	93.1%	10.6%
San Jose-Sunnyvale-Santa Clara, CA	-38.9%	92.6%	10.4%
San Francisco-Redwood City-South San Francisco, CA	-30.7%	94.5%	8.5%
Oakland-Hayward-Berkeley, CA	-23.7%	94.7%	10.1%
Austin-Round Rock, TX	-20.3%	91.0%	16.7%
Denver-Aurora-Lakewood, CO	-16.3%	90.5%	18.1%
Charlotte-Concord-Gastonia, NC-SC	-15.5%	90.1%	16.5%
Raleigh/Durham, NC	-14.9%	91.2%	16.4%
Atlanta-Sandy Springs-Roswell, GA	-13.5%	91.1%	16.5%
Seattle-Bellevue-Everett, WA	-11.8%	93.2%	10.2%
Dallas-Plano-Irving, TX	-10.9%	90.2%	14.1%

2008 RECESSION			
MARKET	RENT DECLINE	MIN OCCUPANCY	MAX CONCESSIONS
USA	-6.5%	92.1%	8.9%
Las Vegas-Henderson-Paradise, NV	-17.7%	90.1%	11.0%
Phoenix-Mesa-Scottsdale, AZ	-16.6%	88.0%	16.7%
New York-White Plains, NY	-15.3%	95.0%	8.5%
Seattle-Bellevue-Everett, WA	-13.4%	93.4%	8.3%
San Jose-Sunnyvale-Santa Clara, CA	-13.3%	94.4%	6.6%
West Palm Beach-Boca Raton-Delray Beach, FL	-13.2%	89.3%	12.5%
Jacksonville, FL	-12.8%	87.7%	12.9%
Orlando-Kissimmee-Sanford, FL	-11.9%	89.3%	13.5%
Atlanta-Sandy Springs-Roswell, GA	-11.1%	88.7%	15.3%
Charlotte-Concord-Gastonia, NC-SC	-10.8%	89.7%	12.4%

Largest Decline after both Recessions

Smallest Decline after 2001 to Largest Decline after 2008

MARKETS WITH LEAST SIGNIFICANT DECLINE IN RENTS

Among this Set of Markets, Rent Declines Larger Following the 2008 Recession, Though with Smaller Increase in Concessions

2001 RECESSION			
MARKET	RENT DECLINE	MIN OCCUPANCY	MAX CONCESSIONS
USA	-4.6%	93.1%	10.6%
Virginia Beach-Norfolk-Newport News, VA-NC	0.0%	95.9%	8.6%
Riverside-San Bernardino-Ontario, CA	-0.1%	94.7%	8.0%
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	-0.2%	94.4%	9.0%
San Diego-Carlsbad, CA	-0.3%	95.2%	7.2%
Baltimore-Columbia-Towson, MD	-0.5%	94.4%	10.8%
Fort Lauderdale-Pompano Beach-Deerfield Beach, FL	-0.7%	94.8%	11.0%
Jacksonville, FL	-0.8%	92.5%	7.8%
Los Angeles-Long Beach-Glendale, CA	-1.2%	95.5%	8.0%
Providence-Warwick, RI-MA	-1.3%	94.9%	11.5%
Miami-Miami Beach-Kendall, FL	-1.4%	94.6%	10.6%

2008 RECESSION			
MARKET	RENT DECLINE	MIN OCCUPANCY	MAX CONCESSIONS
USA	-6.5%	92.1%	8.9%
Pittsburgh, PA	-0.4%	90.5%	6.4%
Baltimore-Columbia-Towson, MD	-1.6%	93.0%	7.4%
Columbus, OH	-1.8%	91.5%	8.1%
Washington-Arlington-Alexandria, DC-VA-MD-WV	-2.7%	93.9%	9.4%
Virginia Beach-Norfolk-Newport News, VA-NC	-2.9%	92.4%	7.8%
Cincinnati, OH-KY-IN	-2.9%	91.5%	8.0%
San Antonio-New Braunfels, TX	-3.2%	89.5%	8.9%
Cleveland-Elyria, OH	-3.4%	91.0%	8.1%
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	-3.5%	92.9%	8.5%
St. Louis, MO-IL	-3.8%	91.8%	7.0%

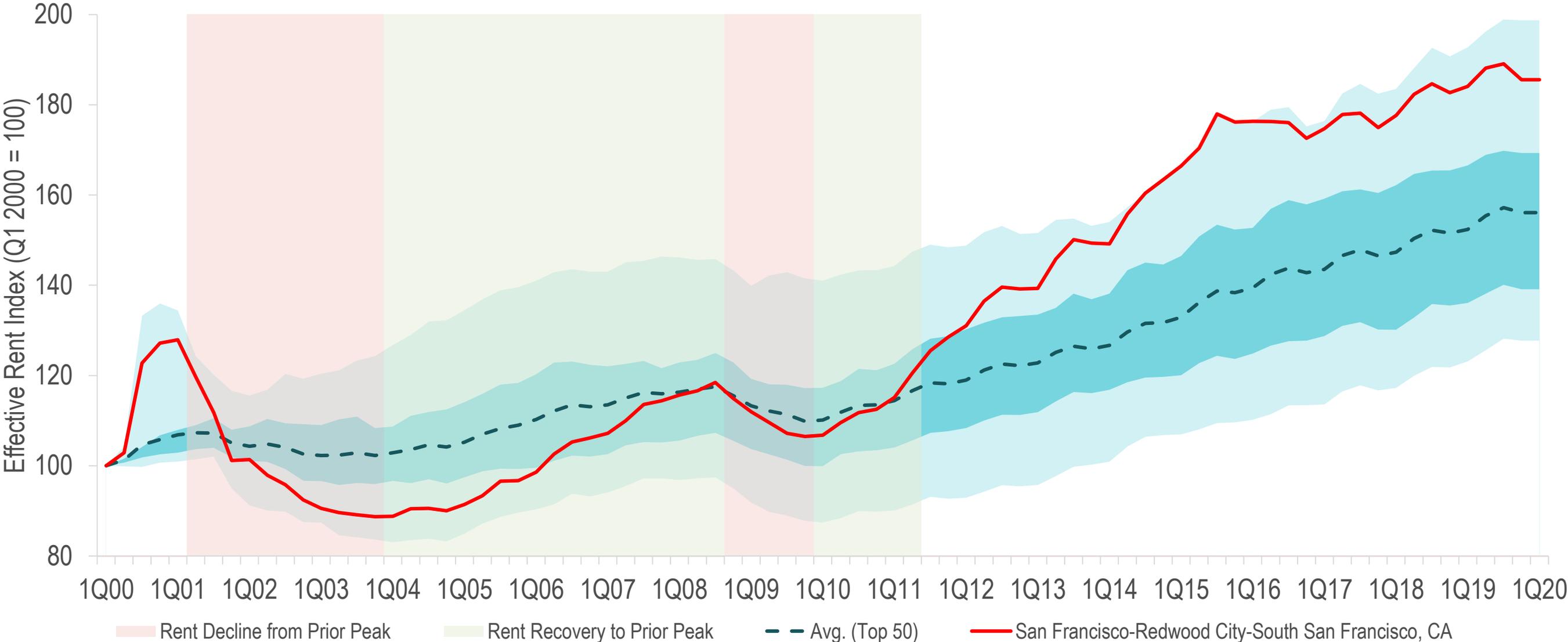
Smallest Decline after both Recessions

Smallest Decline after 2001 to Largest Decline after 2008

EFFECTIVE RENT INDEX

The live webinar included an interactive selection of various markets. Please contact [RCLCO](#) to explore other markets.

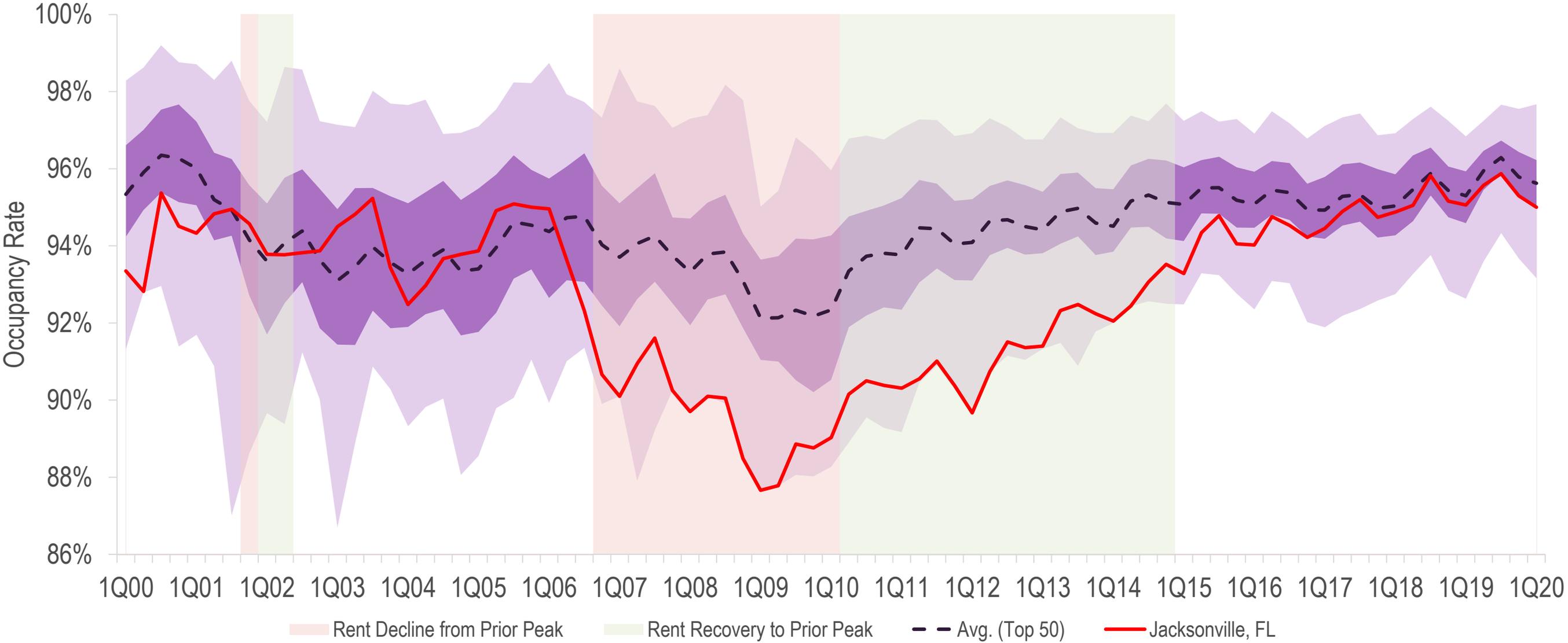
Top 50 Markets & San Francisco-Redwood City-South San Francisco, CA



OCCUPANCY

The live webinar included an interactive selection of various markets. Please contact [RCLCO](#) to explore other markets.

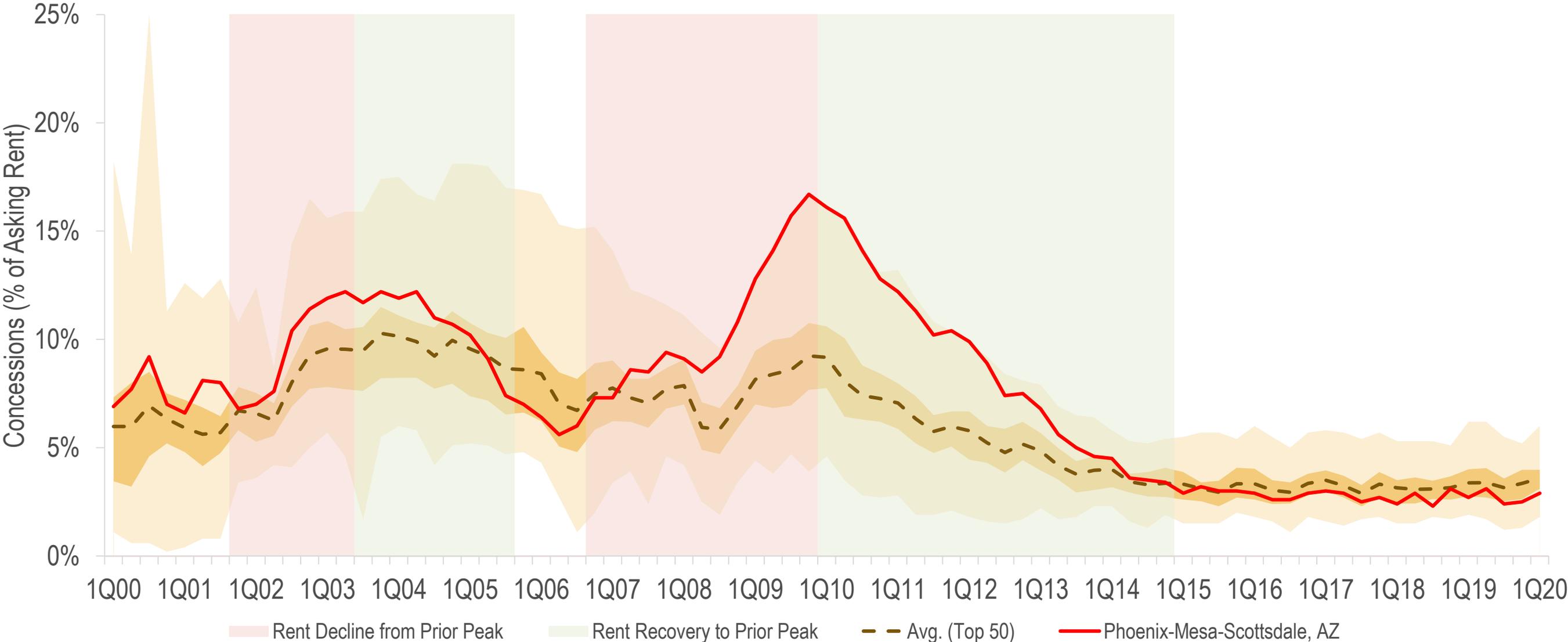
Top 50 Markets & Jacksonville, FL



CONCESSIONS

The live webinar included an interactive selection of various markets. Please contact [RCLCO](#) to explore other markets.

Top 50 Markets & Phoenix-Mesa-Scottsdale, AZ



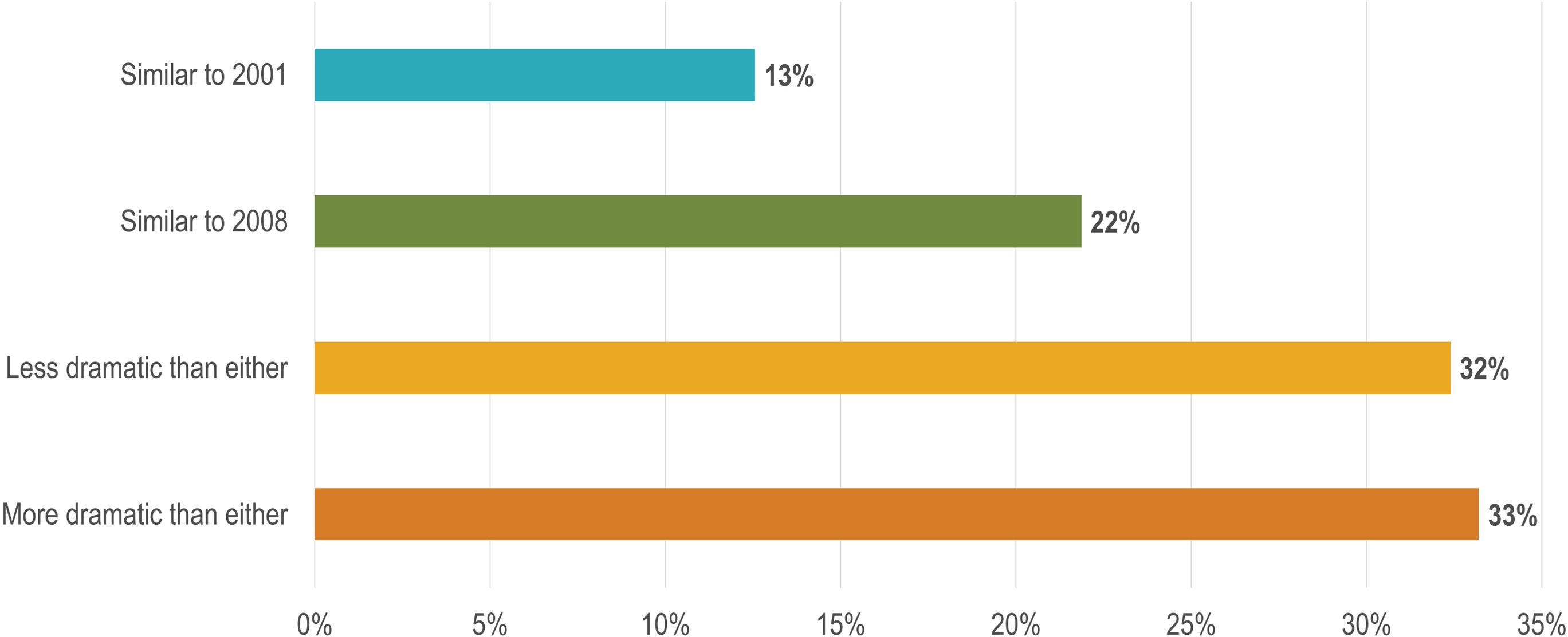
APARTMENT OUTLOOK

- ▶ The trajectory following 2008 is likely to be more illustrative for apartments for this market cycle
 - » A deep and short decline, but fairly robust growth and recovery from the bottom
- ▶ Housing preferences and demand drivers are likely more similar to the recent cycle than the early 2000s
 - » Gen-X vs. Millennials/Gen-Z
 - » Demand for rental vs. for-sale, but perhaps with greater product segmentation and differentiation (e.g., Single-Family Built-to-Rent).
- ▶ The forecast and trajectory varies by market and by submarket
 - » While few markets are safe from declining rents, primary markets will likely face the smallest change in occupancy
 - » Markets with a large technology employment sector may outperform relative to the past recessions
 - » Even markets with diversified economies can experience significant declines in rents and occupancy



POLL #2

Which recession do you think is more illustrative for apartments this market cycle?

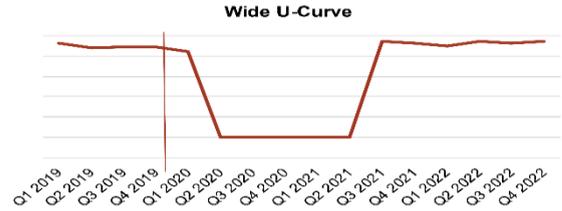


RCLCO POINT-OF-VIEW

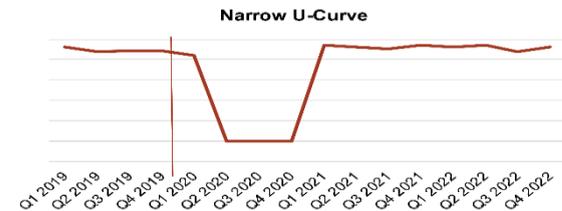
MOST LIKELY RECOVERY SCENARIOS

Update: April 17, 2020

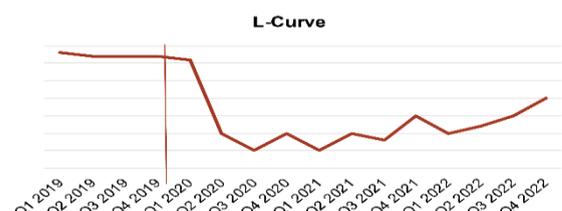
1. There is little doubt that we are now in, or soon heading for, a recession in the U.S. Question is, which of the following scenarios do you believe is most likely for a recovery scenario, including:



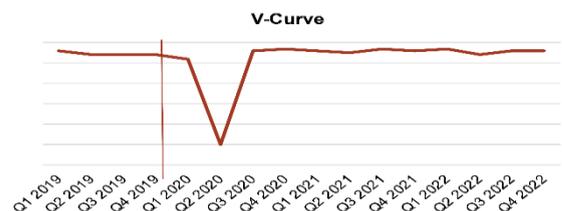
Wide U-Curve: managed control of new COVID-19 cases helping to flatten the curve, but stretching the economic impact across the balance of 2020



Narrow U-Curve: peak new COVID-19 cases in the U.S. higher and delayed until May



L-Curve: the country continues to deal with new COVID-19, or sees a resurgence in the fall that requires additional rounds of social distancing throughout 2020 and into 2021



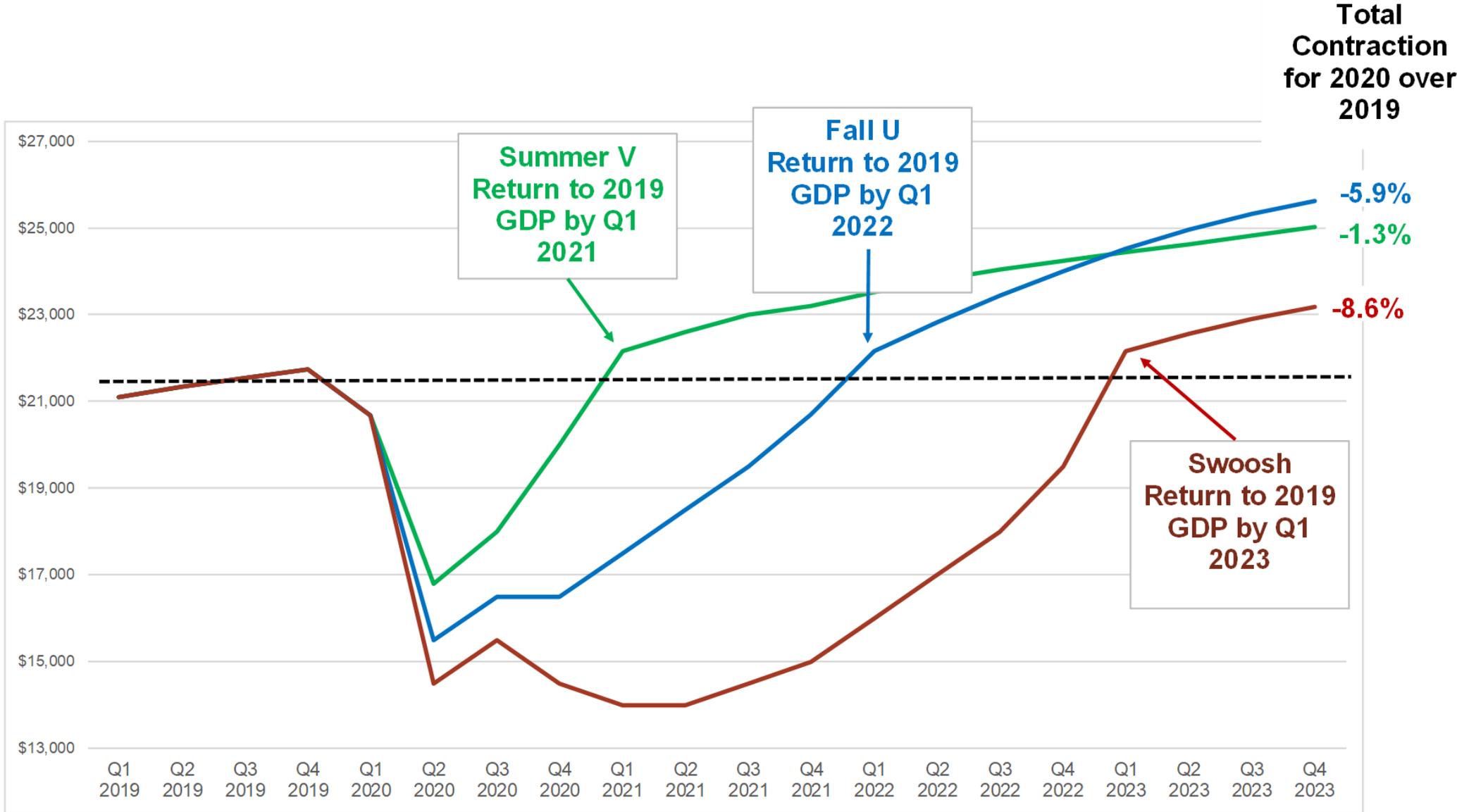
V-Curve: relatively quick recovery with peak new COVID-19 cases in the U.S. in mid-April



0% 5% 10% 15% 20% 25% 30% 35%

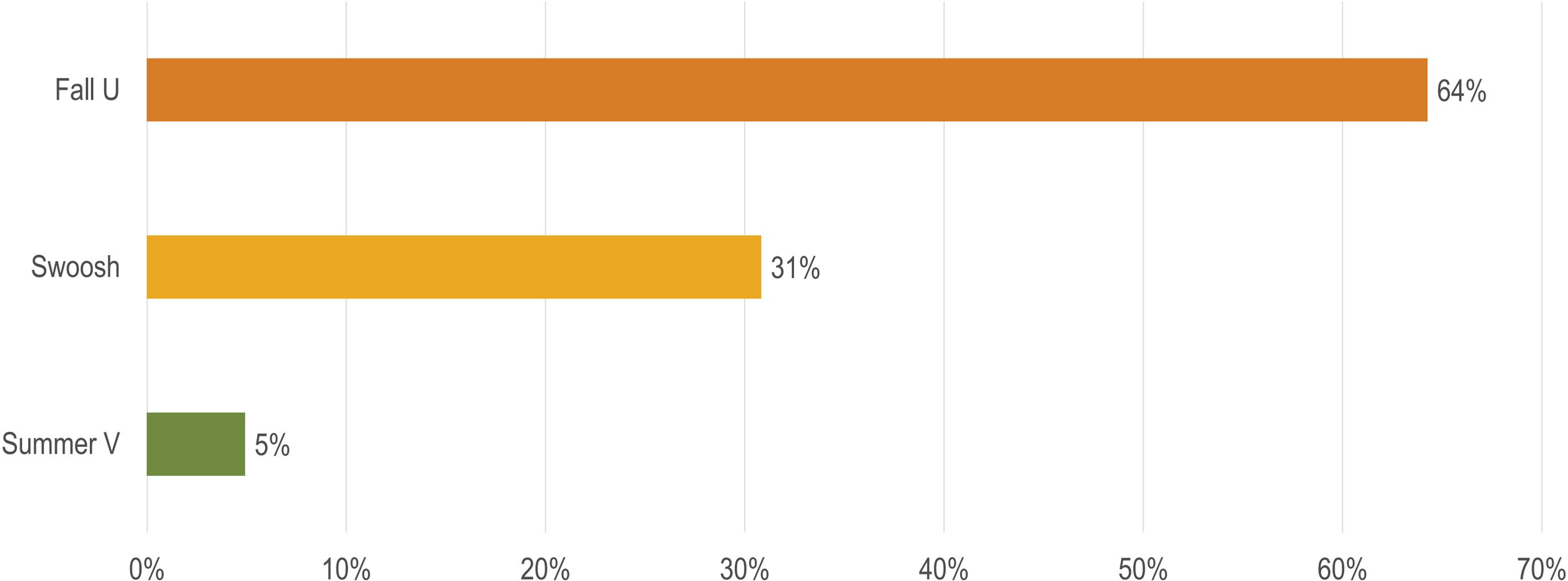


COVID-19 & POSSIBLE RECOVERY SCENARIOS



POLL #3

What do you believe the most likely recovery scenario will look like?



DISCLAIMERS

CRITICAL ASSUMPTIONS

Our conclusions are based on our analysis of the information available from our own sources and from the client as of the date of this report. We assume that the information is correct, complete, and reliable.

We made certain assumptions about the future performance of the global, national, and local economy and real estate market, and on other factors similarly outside either our control or that of the client. We analyzed trends and the information available to us in drawing these conclusions. However, given the fluid and dynamic nature of the economy and real estate markets, as well as the uncertainty surrounding particularly the near-term future, it is critical to monitor the economy and real estate markets continuously and to revisit the aforementioned conclusions periodically to ensure that they are reflective of changing market conditions.

This is particularly the case in light of recent developments that have occurred in Q1 2020, including fears of disruption due to the novel coronavirus, a price war that has precipitated a sharp drop in global oil prices, and concern over the level of corporate debt in the U.S. that could become a problem in a slowing economy. These events underscore the notion that stable and moderate growth patterns are historically not sustainable over extended periods of time, the economy is cyclical, and real estate markets are typically highly sensitive to business cycles. Further, it is particularly difficult to predict inflection points, including when economic and real estate expansions will end, and when downturn conditions return to expansion.

Our analysis and recommendations are based on information available to us at the time of the writing of this report, including the likelihood of a downturn, length and duration, but it does not consider the potential impact of additional/future shocks on the national and/or local economy, and does not consider the potential benefits from major "booms" that may occur. Similarly, the analysis does not reflect the residual impact on the real estate market and the competitive environment of such a shock or boom. Also, it is important to note that it is difficult to predict changing consumer and market psychology. As such, we recommend the close monitoring of the economy and the marketplace, and updating this analysis as appropriate.

Further, any project and investment economics included in our analysis and reports should be "stress tested" to ensure that potential fluctuations in revenue and cost assumptions resulting from alternative scenarios regarding the economy and real estate market conditions will not cause unacceptable levels of risk or failure.

In addition, and unless stated otherwise in our analysis and reports, we assume that the following will occur in accordance with current expectations by market participants:

- ▶ Tax laws (i.e., property and income tax rates, deductibility of mortgage interest, and so forth)
- ▶ Availability and cost of capital and mortgage financing for real estate developers, owners and buyers
- ▶ Competitive supply (both active and future) will be delivered to the market as planned, and that a reasonable stream of supply offerings will satisfy real estate demand
- ▶ Major public works projects occur and are completed as planned

Should any of the above change, this analysis should be updated, with the conclusions reviewed accordingly (and possibly revised).

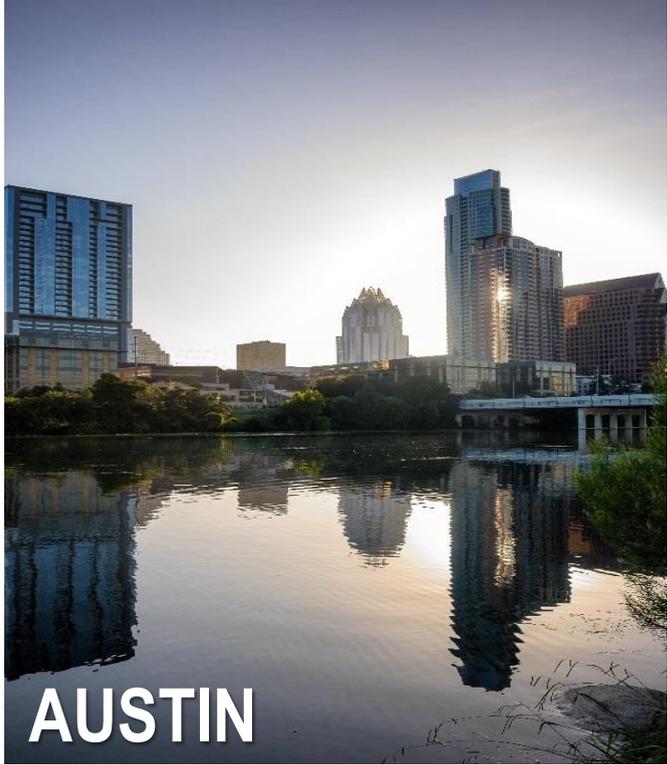
GENERAL LIMITING CONDITIONS

Reasonable efforts have been made to ensure that the data contained in this study reflect accurate and timely information and are believed to be reliable. This study is based on estimates, assumptions, and other information developed by RCLCO from its independent research effort, general knowledge of the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent, and representatives or in any other data source used in preparing or presenting this study. This report is based on information that to our knowledge was current as of the date of this report, and RCLCO has not undertaken any update of its research effort since such date.

Our report may contain prospective financial information, estimates, or opinions that represent our view of reasonable expectations at a particular time, but such information, estimates, or opinions are not offered as predictions or assurances that a particular level of income or profit will be achieved, that particular events will occur, or that a particular price will be offered or accepted. Actual results achieved during the period covered by our prospective financial analysis may vary from those described in our report, and the variations may be material. Therefore, no warranty or representation is made by RCLCO that any of the projected values or results contained in this study will be achieved.

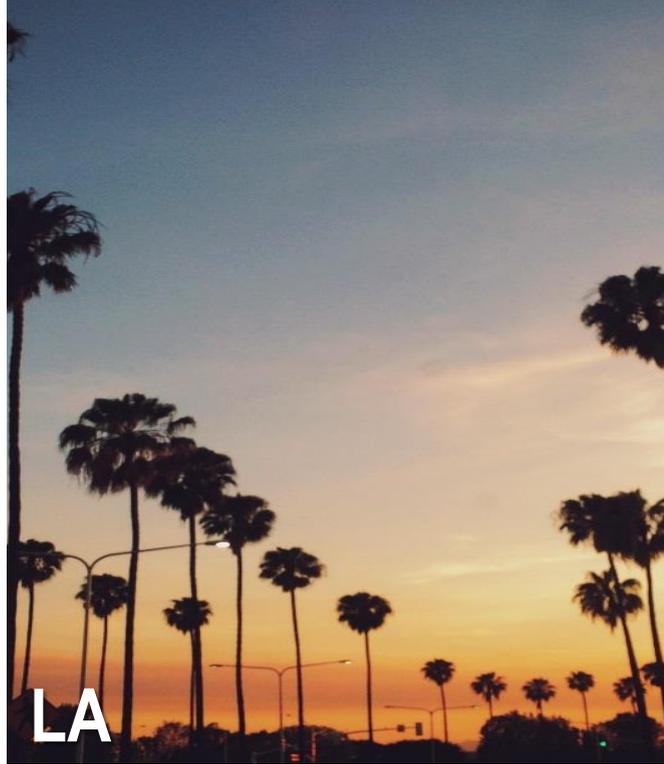
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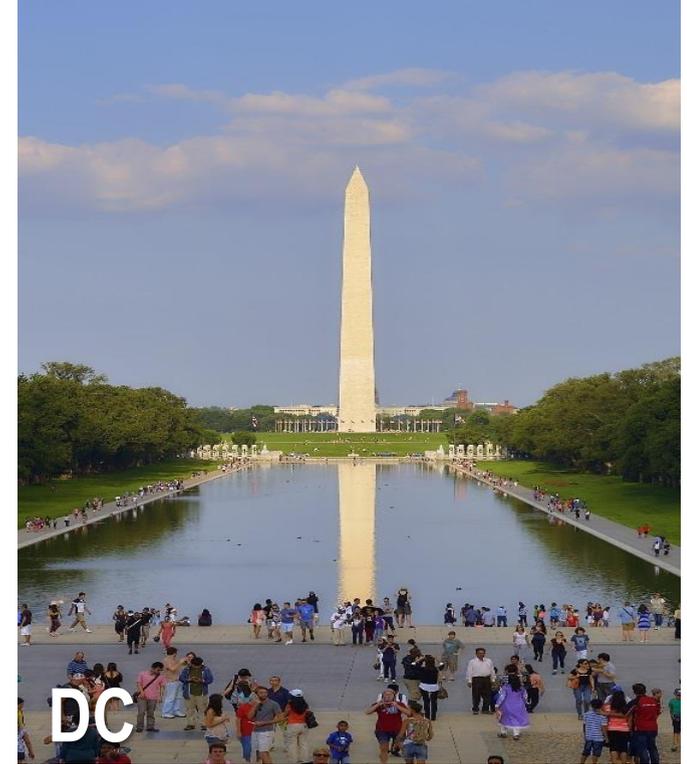
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