



MPC Trends



Ft Bend County Economic Development Council Members Meeting

May 18, 2017

Todd LaRue, Managing Director, RCLCO

- Strong housing market demand and demographic fundamentals
- Challenges delivering enough product, especially affordable, creating pent-up demand
- Demand for rentals – multifamily and single-family (yes, in MPCs too)
- Economic cycle risk looming
- Increasing prices (and costs) across the board (land, lots, and homes)
- Exciting innovations in product design and rental housing solutions
- Developers are learning to succeed in smaller, close-in and in-fill locations
- Amount and cost of capital for development and homebuilding improving
- Mortgage qualification criteria for consumers still a challenge, though improving

20 YEARS OF TOP MPC TRENDS

| Same | Different |
|--|--|
| <ul style="list-style-type: none"> MPCs outperform builder subdivisions | <ul style="list-style-type: none"> MPCs gross sales still recovering in many markets |
| <ul style="list-style-type: none"> Sunbelt | <ul style="list-style-type: none"> Growth of Texas markets |
| <ul style="list-style-type: none"> Product/market segmentation sells | <ul style="list-style-type: none"> Compressing of segmentation |
| <ul style="list-style-type: none"> Target wide range of buyers | <ul style="list-style-type: none"> Fewer pure AAC's on top-selling list |
| <ul style="list-style-type: none"> Creative amenity programs | <ul style="list-style-type: none"> Less focus on golf |
| <ul style="list-style-type: none"> Good branding | <ul style="list-style-type: none"> Internet, social media |
| <ul style="list-style-type: none"> Strong schools | <ul style="list-style-type: none"> Charter and private schools when necessary |
| <ul style="list-style-type: none"> Lifestyle | <ul style="list-style-type: none"> Creating employment centers to drive residential sales |
| <p>Source: RCLCO</p> <ul style="list-style-type: none"> Large projects dominate top seller list | <ul style="list-style-type: none"> Newer communities are smaller |



**RCLCO started studying MPCs in 1967 and we haven't looked back since.
In the last 10 years, RCLCO has worked on over 200 MPCs nationwide.**

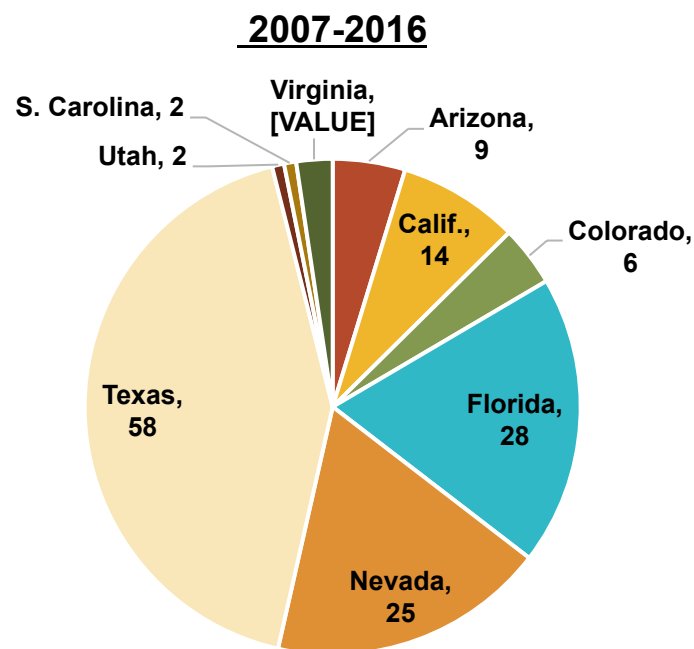
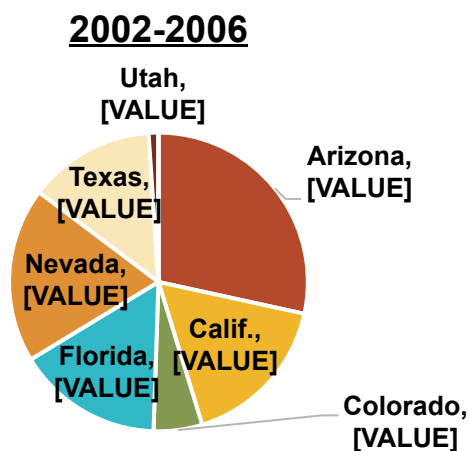
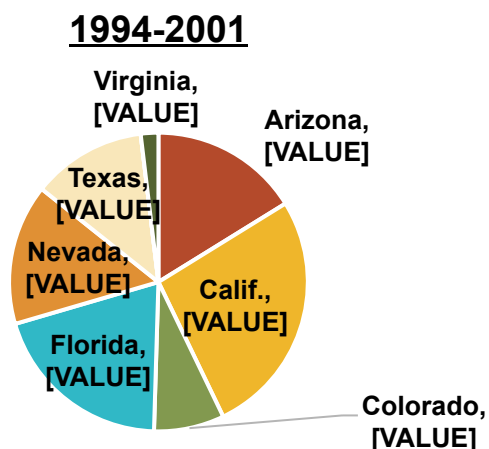
TOP-SELLING MPC'S OF 2016: TWO IN FT BEND

| Rank | MPC | MSA | Location | State | 2016 Sales | 2015 Sales | % Change |
|-------|--------------------------|----------------------------------|---------------------|-------|------------|------------|----------|
| 1 | Irvine Ranch | Los Angeles–Long Beach–Santa Ana | Orange County | CA | 1,989 | 1,674 | 19% |
| 2 | The Villages | Ocala | The Villages | FL | 1,966 | 2,294 | -14% |
| 3 | Nocatee | Jacksonville | Ponte Vedra | FL | 973 | 1,105 | -12% |
| 4 | Lakewood Ranch | North Port-Sarasota-Bradenton | Sarasota | FL | 775 | 535 | 45% |
| 5 | Summerlin | Las Vegas-Henderson-Paradise | Las Vegas | NV | 769 | 602 | 28% |
| 6 | Cane Bay Plantation | Charleston-North Charleston | Charleston | SC | 569 | 520 | 9% |
| 7 | Inspirada | Las Vegas-Henderson-Paradise | Las Vegas | NV | 564 | 389 | 45% |
| 8 | Great Park Neighborhoods | Los Angeles–Long Beach–Santa Ana | Irvine | CA | 530 | 282 | 88% |
| 9 | Westridge | Dallas-Fort Worth-Arlington | McKinney | TX | 528 | 472 | 12% |
| 10 | Paloma Creek | Dallas-Fort Worth-Arlington | Dallas | TX | 515 | 450 | 14% |
| 11 | Eastmark | Phoenix-Mesa-Scottsdale | Mesa | AZ | 502 | 554 | -9% |
| 12 | Lake Nona | Orlando-Kissimmee-Sanford | Orlando | FL | 495 | 500 | -1% |
| 13 | Stapleton | Denver-Aurora-Lakewood | Denver | CO | 471 | 665 | -29% |
| 14 | Rancho Mission Viejo | Los Angeles–Long Beach–Santa Ana | San Juan Capistrano | CA | 458 | 302 | 52% |
| 15 | Vistancia | Phoenix-Mesa-Scottsdale | Peoria | AZ | 453 | 466 | -3% |
| 16 | Daybreak | Salt Lake City | South Jordan | UT | 452 | 415 | 9% |
| 17 | Baker Ranch | Los Angeles–Long Beach–Santa Ana | Lake Forest | CA | 443 | 355 | 25% |
| 18 | Riverstone | Houston–The Woodlands–Sugar Land | Fort Bend County | TX | 441 | 609 | -28% |
| 19 | Aliana | Houston–The Woodlands–Sugar Land | Fort Bend County | TX | 426 | 443 | -4% |
| 20 | Verrado | Phoenix-Mesa-Scottsdale | Buckeye | AZ | 413 | 343 | 20% |
| Total | | | | | 13,732 | 12,975 | 6% |

Source: RCLCO

2016: 2 OF TOP 20 IN FT BEND, 9 OF TOP 50 IN HOUSTON METRO, 18 OF TOP 50 IN TEXAS

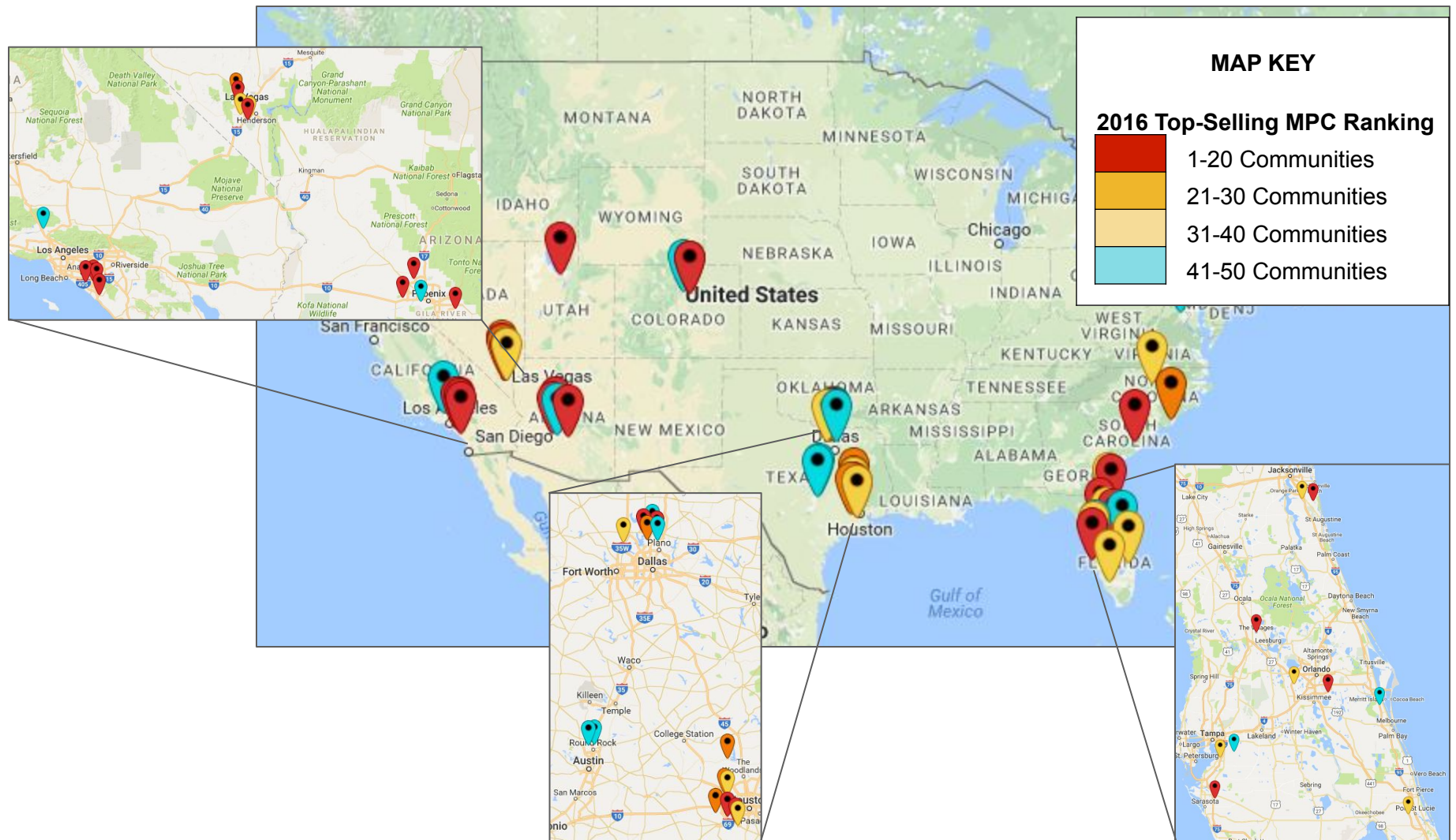
Number of Top-Selling Communities by State (Top 20)



Since the beginning of the Great Recession:

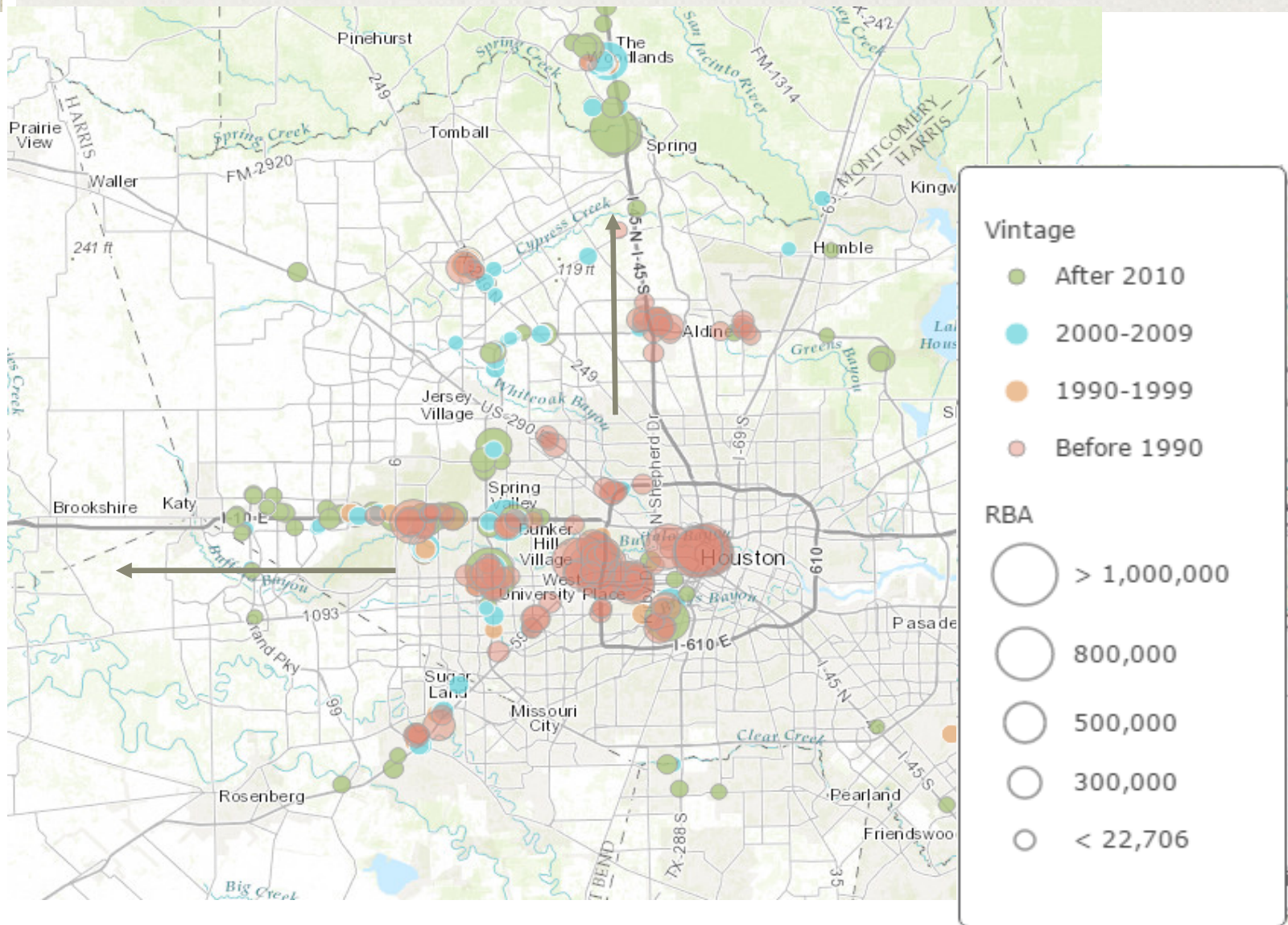
- Texas has increased share of MPC sales
- Florida has recovered share
- Arizona and CA shares smaller

50 TOP-SELLING MPCs IN 2016 9 IN HOUSTON METRO, 18 IN TEXAS



HOUSTON EMPLOYMENT CORES

OFFICE SPACE AND EMPLOYMENT CONTINUES TO MIGRATE NORTH AND WEST, DRIVING DEMAND AT MPC'S

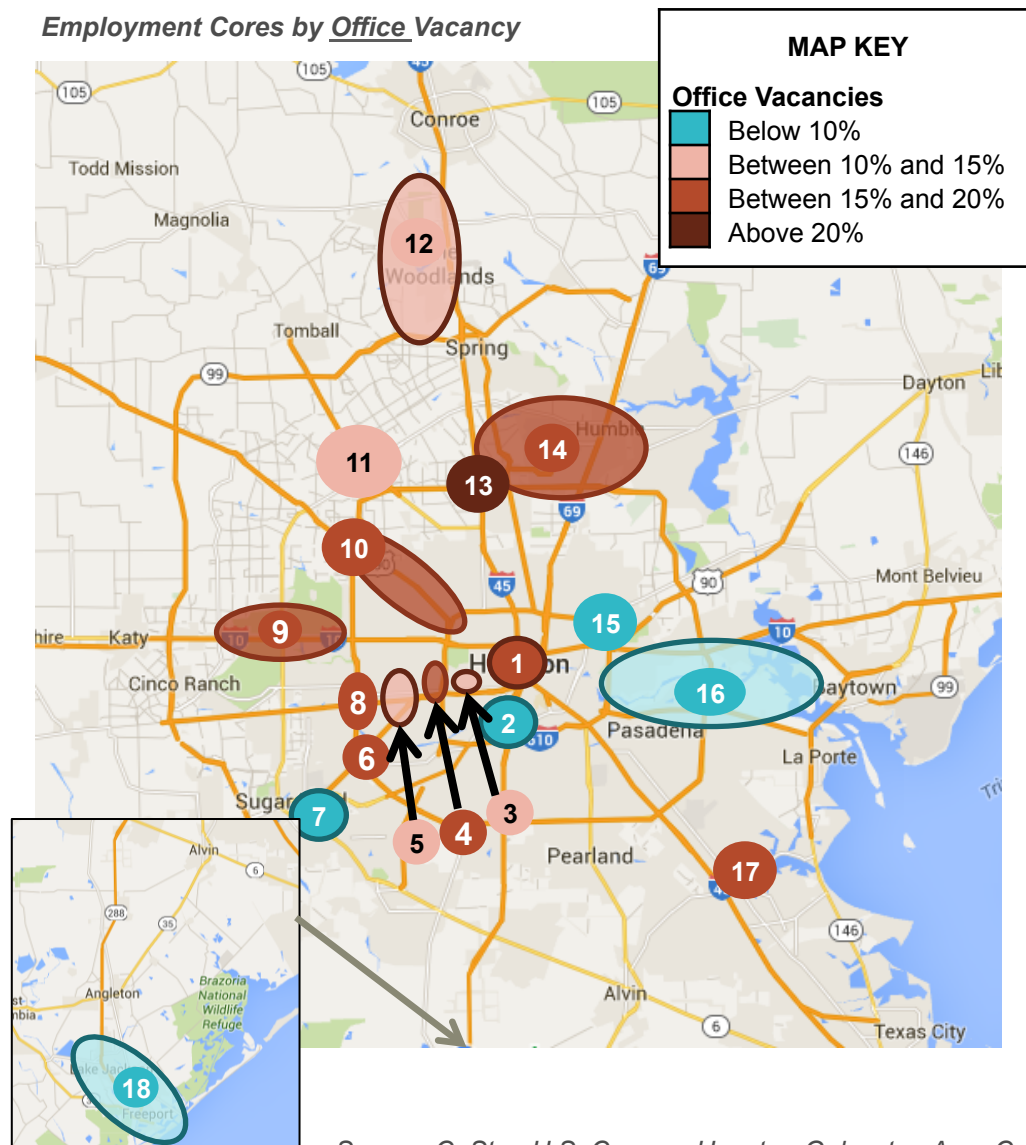


Source: CoStar; Esri

**Class A Office Space by Year Built
2016**

SUGAR LAND OFFICE CORE PERFORMING AMONG BEST IN HOUSTON

Employment Cores by Office Vacancy



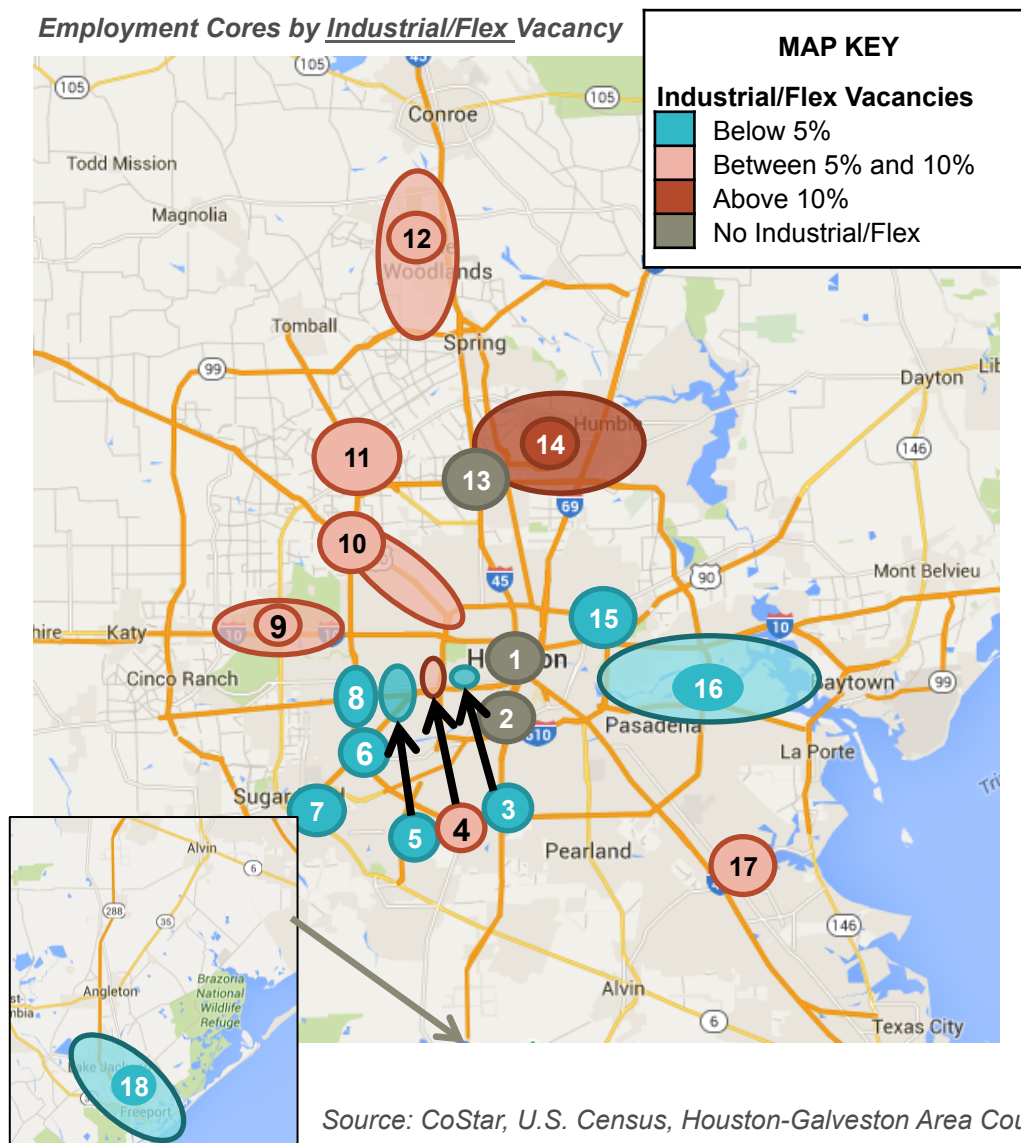
Regional Employment Cores

| MAP KEY | CORE | 2016 OCCUPIED SF (000s) | ABSORPTION (000s) | |
|---------|------------------------|-------------------------|-------------------|-------------|
| | | | 2016 | 5-YEAR AVG. |
| 1 | Downtown | 42,270 | -282 | -239 |
| 2 | Texas Medical Center | 4,559 | 16 | 106 |
| 3 | Greenway Plaza | 10,265 | 252 | 45 |
| 4 | Galleria | 27,591 | -815 | 95 |
| 5 | Westpark Tollway | 7,638 | 123 | 47 |
| 6 | Beltway and SW Freeway | 4,802 | 43 | 22 |
| 7 | Sugarland/Stafford | 7,493 | 7 | 22 |
| 8 | Westchase | 16,495 | 62 | 254 |
| 9 | Katy Freeway | 24,040 | 219 | 867 |
| 10 | Northwest Freeway | 7,123 | 164 | -12 |
| 11 | FM 1960 Tomball | 6,111 | 33 | 319 |
| 12 | The Woodlands | 16,386 | 428 | 1,344 |
| 13 | Greenspoint | 7,018 | -1,120 | -413 |
| 14 | IAH | 2,939 | -98 | -5 |
| 15 | Northeast Loop Core | 753 | 558 | 137 |
| 16 | Pasadena/Ship Channel | 4,973 | 199 | 100 |
| 17 | NASA | 7,342 | 33 | -23 |
| 18 | Freeport/Lake Jackson | 329 | 5 | 10 |

Source: CoStar, U.S. Census, Houston-Galveston Area Council; RCLCO

SUGAR LAND INDUSTRIAL CORE REMAINS POSITIVE AMONG STRONGEST IN HOUSTON

Employment Cores by Industrial/Flex Vacancy



Regional Employment Cores

| MAP KEY | CORE | 2016 OCCUPIED SF (000s) | ABSORPTION (000s) | |
|---------|-----------------------------|-------------------------|-------------------|-------------|
| | | | 2016 | 5-YEAR AVG. |
| 1 | Downtown | 0 | 0 | 0 |
| 2 | Texas Medical Center | 0 | 0 | 0 |
| 3 | Greenway Plaza | 797 | -21 | -3 |
| 4 | Galleria | 3,005 | -28 | 1 |
| 5 | SW Freeway/Westpark Tollway | 8,016 | 41 | 22 |
| 6 | Beltway & SW Freeway | 7,398 | 10 | 83 |
| 7 | Sugarland/Stafford | 15,034 | 290 | 124 |
| 8 | Westchase | 6,633 | 16 | 87 |
| 9 | Katy Freeway | 10,070 | -161 | -15 |
| 10 | Northwest Freeway | 53,920 | -1,073 | 135 |
| 11 | FM 1960 Tomball | 8,186 | 1,312 | 484 |
| 12 | The Woodlands | 3,282 | 11 | 51 |
| 13 | Greenspoint | 0 | 0 | 0 |
| 14 | IAH | 20,065 | -383 | 598 |
| 15 | Northeast Loop Core | 6,061 | 374 | 138 |
| 16 | Pasadena/Ship Channel | 61,267 | 2,341 | 1,410 |
| 17 | NASA | 9,114 | 747 | 507 |
| 18 | Freeport/Lake Jackson | 1,461 | 44 | 16 |

Source: CoStar, U.S. Census, Houston-Galveston Area Council; RCLCO

STRONG LONG-TERM EMPLOYMENT PROJECTIONS FOR SUGAR LAND

Employment Core Summary

| MAP KEY | CORE | CORE TYPE | 2015 TOTAL EMPLOYMENT | 2030 TOTAL EMPLOYMENT | ANNUAL GROWTH | TOTAL GROWTH RATE |
|----------------------------|-----------------------------|-------------------|-----------------------|-----------------------|---------------|-------------------|
| 1 | Downtown | Urban | 159,800 | 167,100 | 490 | 5% |
| 2 | Texas Medical Center | Catalytic | 121,400 | 138,000 | 1,110 | 14% |
| 3 | Greenway Plaza | Office | 61,600 | 77,000 | 1,030 | 25% |
| 4 | Galleria | Office | 116,400 | 118,200 | 120 | 2% |
| 5 | SW Freeway/Westpark Tollway | Office | 52,300 | 55,800 | 230 | 7% |
| 6 | Beltway and SW Freeway | Industrial | 38,900 | 42,900 | 270 | 10% |
| 7 | Sugar Land/Stafford | Industrial/Office | 78,900 | 96,100 | 1,150 | 22% |
| 8 | Westchase | Office | 72,400 | 77,000 | 310 | 6% |
| 9 | Katy Freeway | Office | 128,100 | 142,000 | 930 | 11% |
| 10 | Northwest Freeway Corridor | Industrial | 195,400 | 228,800 | 2,230 | 17% |
| 11 | FM 1960 Tomball | Retail | 39,100 | 47,900 | 590 | 23% |
| 12 | The Woodlands | Office | 55,800 | 71,900 | 1,070 | 29% |
| 13 | Greenspoint | Office | 64,400 | 72,400 | 530 | 12% |
| 14 | IAH | Industrial | 68,200 | 83,400 | 1,010 | 22% |
| 15 | Northeast Loop Core | Industrial | 59,700 | 78,700 | 1,270 | 32% |
| 16 | Pasadena/Ship Channel | Industrial | 63,200 | 78,600 | 1,030 | 24% |
| 17 | NASA | Catalytic | 55,600 | 59,700 | 270 | 7% |
| 18 | Freeport/Lake Jackson | Industrial | 33,600 | 37,600 | 270 | 12% |
| Houston Cores Total | | | 1,431,200 | 1,635,500 | 13,620 | 14% |

Source: U.S. Census, Houston-Galveston Area Council; RCLCO

RCLCO Research:

- Consumer Research on preference for suburbs
- Delayed life stages of Millennials

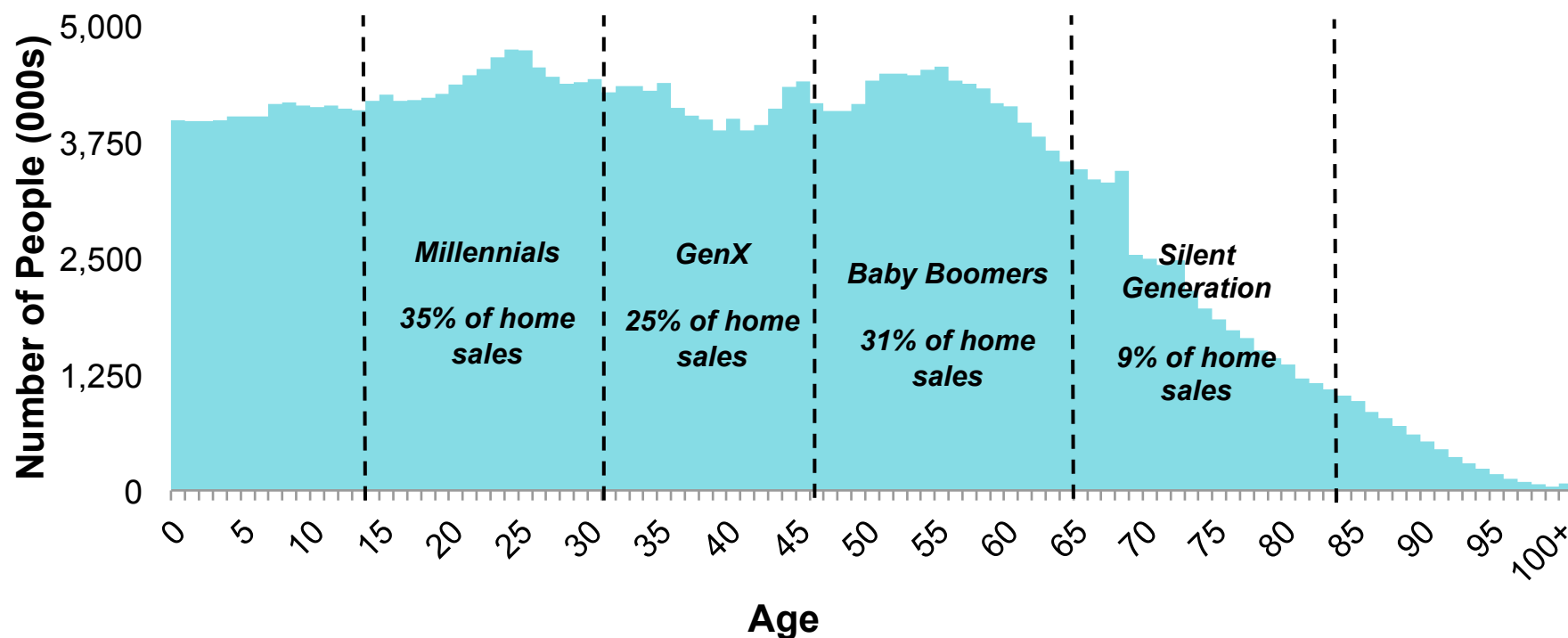
Lifestyle-oriented & Attainable Product:

- New product increasingly out of reach for many buyers
- Urban lifestyle not attainable for many, particularly those seeking to buy, so MPC's adapting to deliver urban experience

Opportunity: Unmet demand given value and lifestyle considerations

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

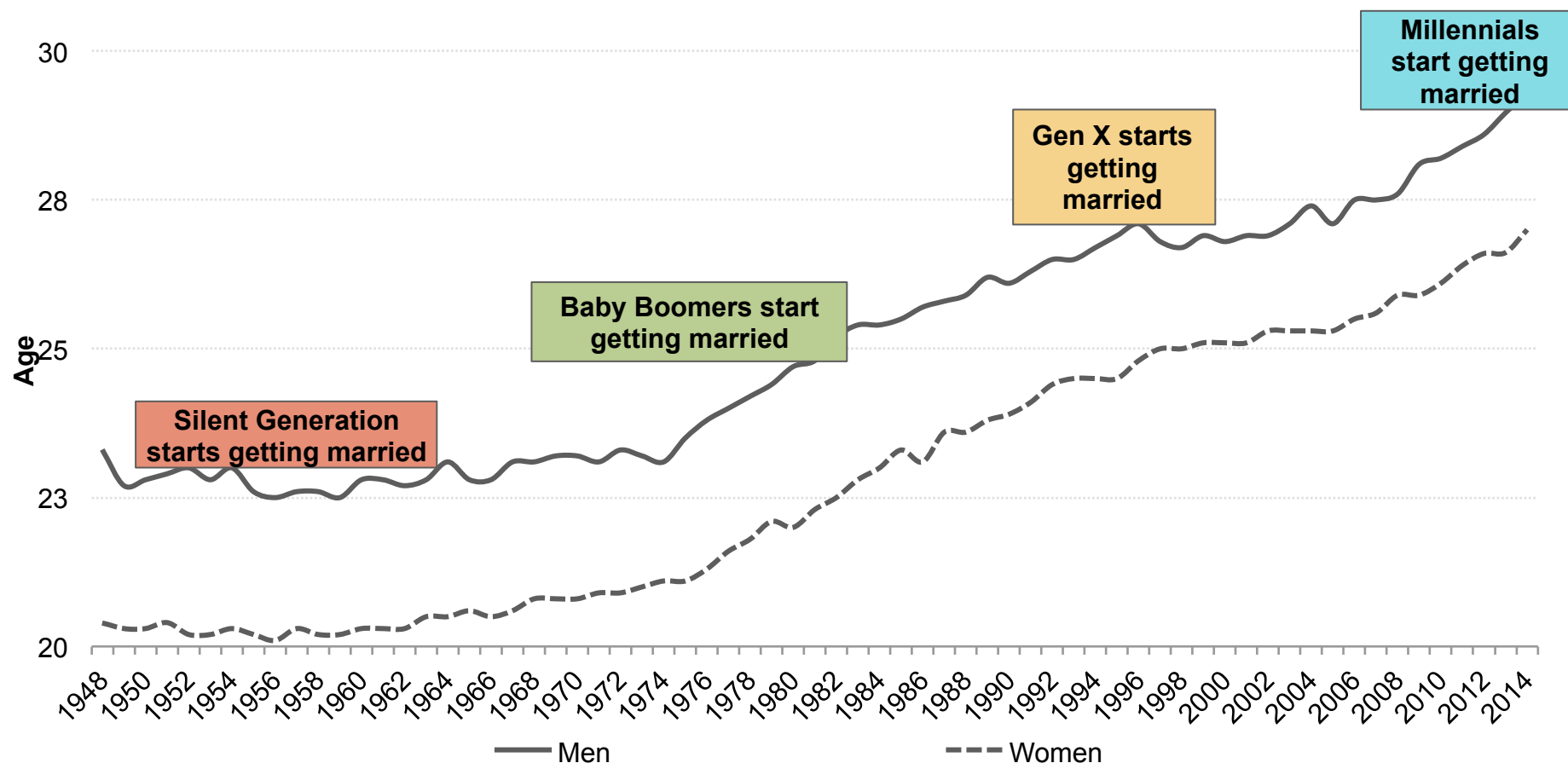
HOUSING NEEDS SHIFT AS GENERATIONS MOVE THROUGH LIFE STAGES

- 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 2 nd 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 |

“GREAT DELAY” IN HOUSEHOLD FORMATION WILL NOT LAST FOREVER

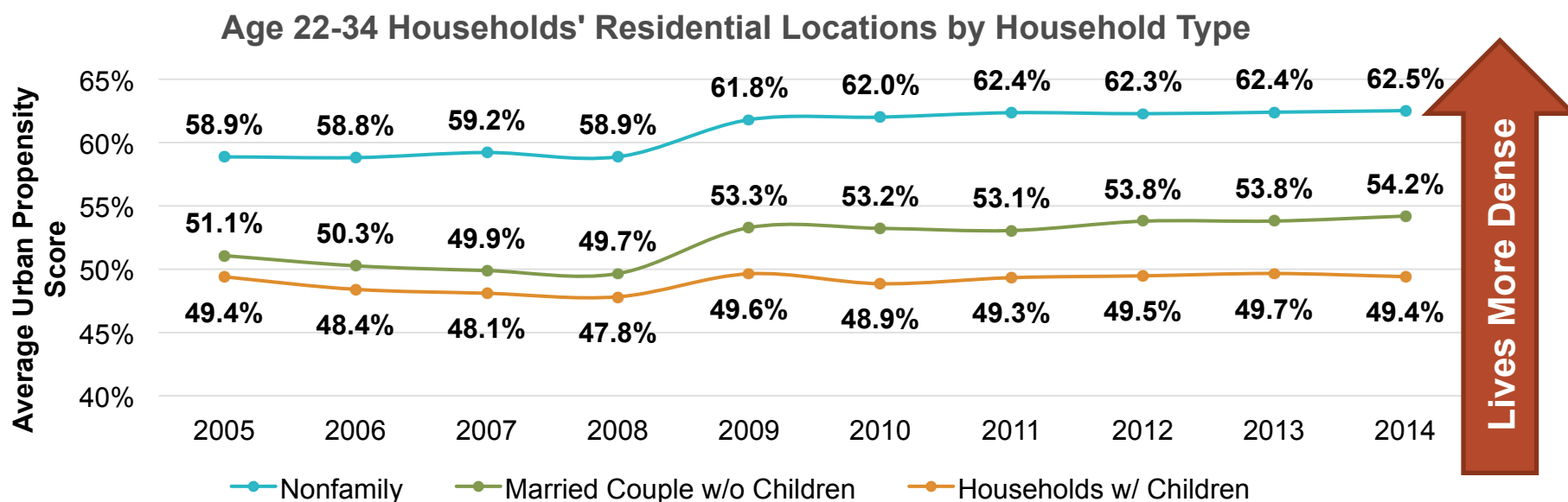
Millennials are getting married and buying home later than previous generations. However, they will have children at historic rates, later in life, which will create need for family housing.



Source: US Census PUMS; RCLCO

DELAYED LIFE STAGE

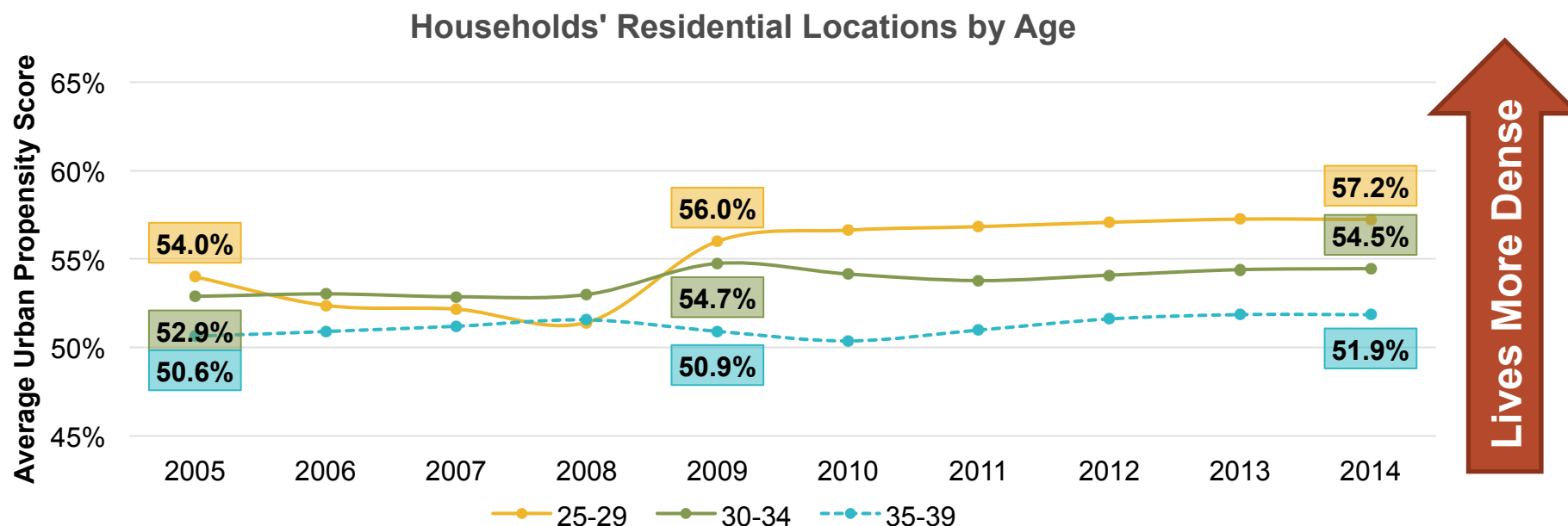
- In a study of household activity in the top ten metropolitan regions, data shows that a resurgence of urban living is driven by the younger childless Millennials, while older child-present Millennial households demonstrate similar propensities for urban living as past generations
- Household composition is one important indicator of preference, and as shown below households with children prefer a more suburban environment than nonfamily or married couples without children.



Source: U.S. Census Bureau; RCLCO

DELAYED LIFE STAGE

- Delayed family formation most dramatically impacts the age 25-29 cohort, where the proportion of family households fell from 42.5% to 35% in the past nine years.
- Older cohorts have been less affected by this trend
- Residential locations of households with children are relatively consistent across each sub-age group and remain consistent over the last 10 years
- As younger millennials form households and have children later, they are likely to behave as past generations

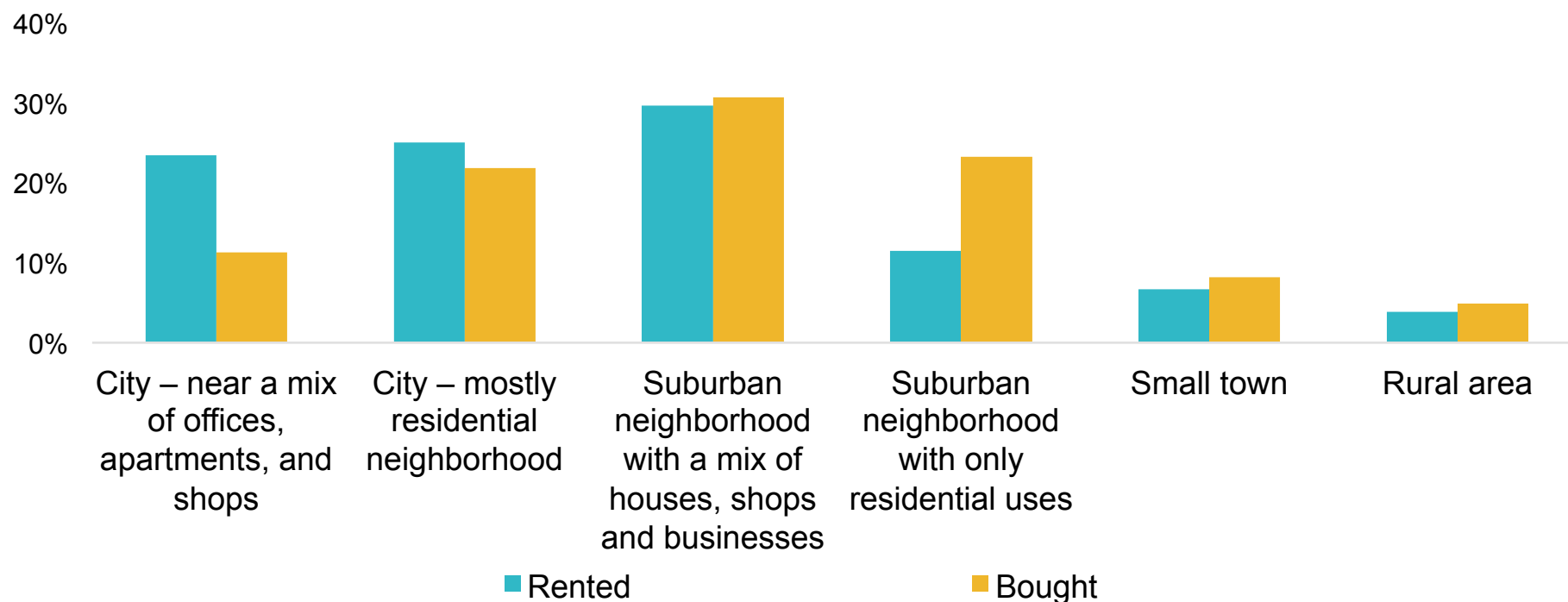


Source: U.S. Census Bureau; RCLCO

THE SUBURBS ARE VERY MUCH ALIVE

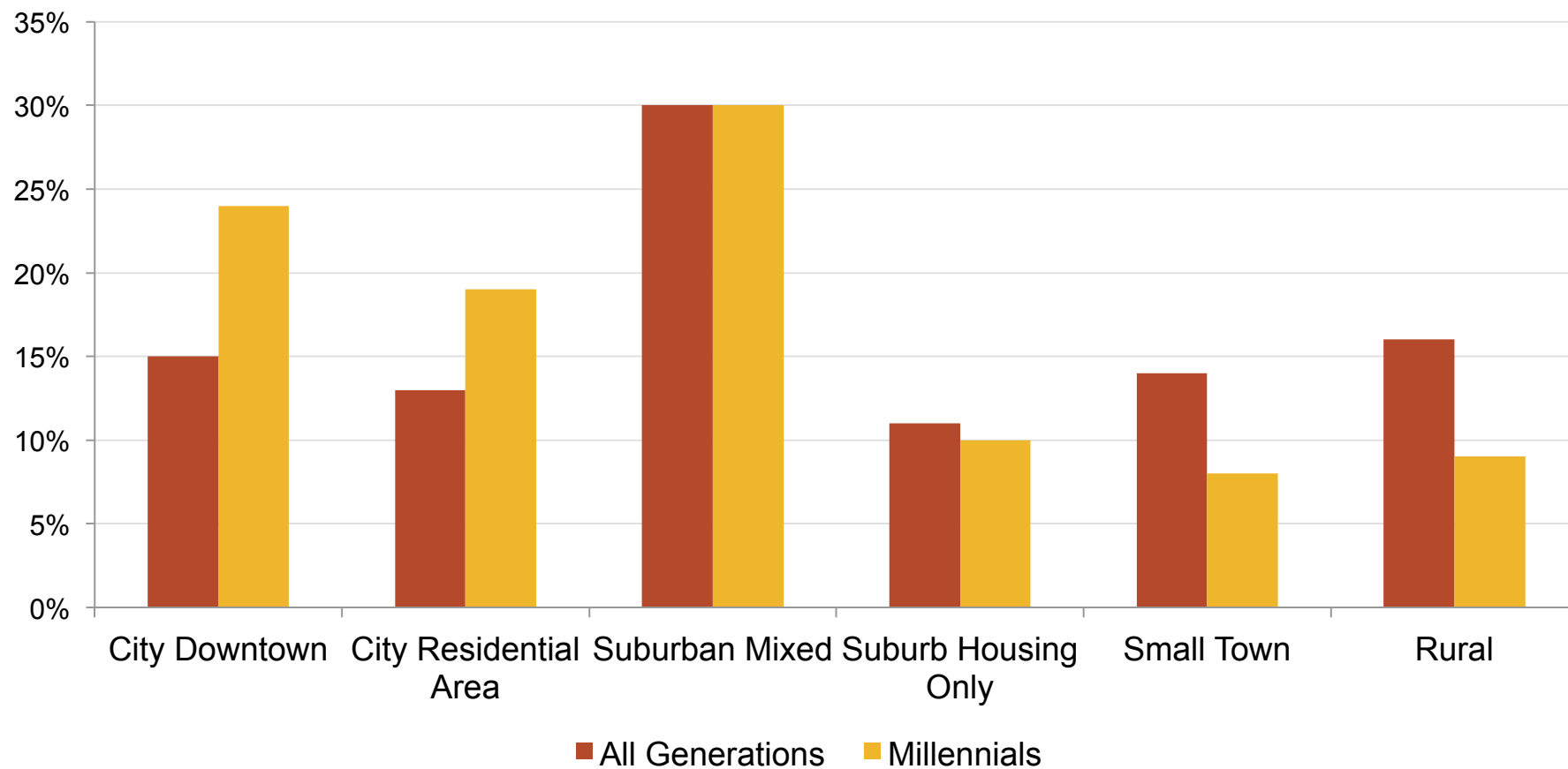
- Don't believe the urban hype – the re-urbanization of the U.S. is being driven primarily by wealthy singles and childless couples – the suburbs are alive and well....but urban lessons abound and expected in some form in the suburbs.
- Walkable suburban areas with mix of housing, retail appeal to all groups

Preference of Home Location of Millennial Renters vs. Owners



Source: RCLCO 2016 Survey

LOCATION PREFERENCES

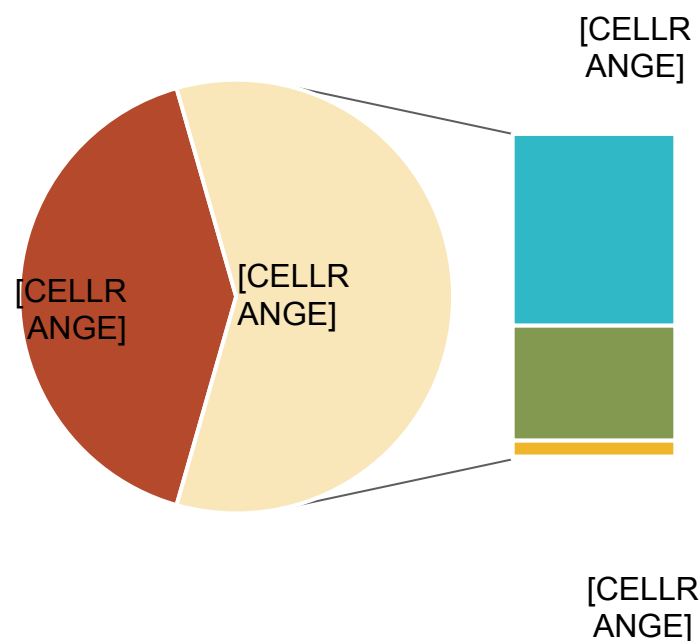
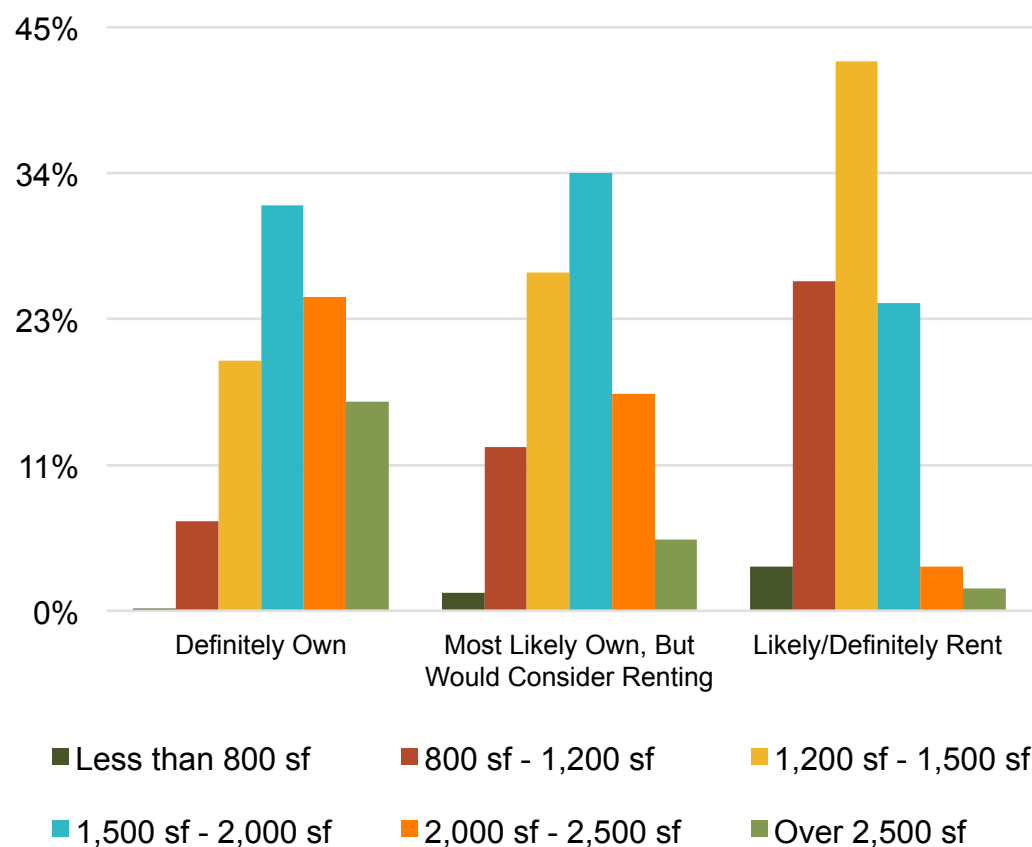


Source: NAR Community Preference Survey

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.

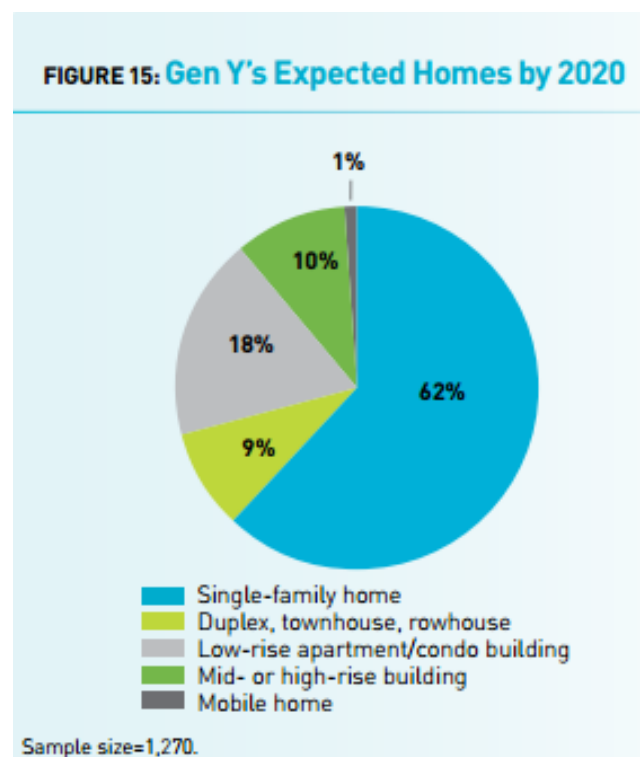
Plus, many plan to move over near-term.



Source: RCLCO 2016 Survey

FUTURE EXPECTATIONS - MILLENNIALS

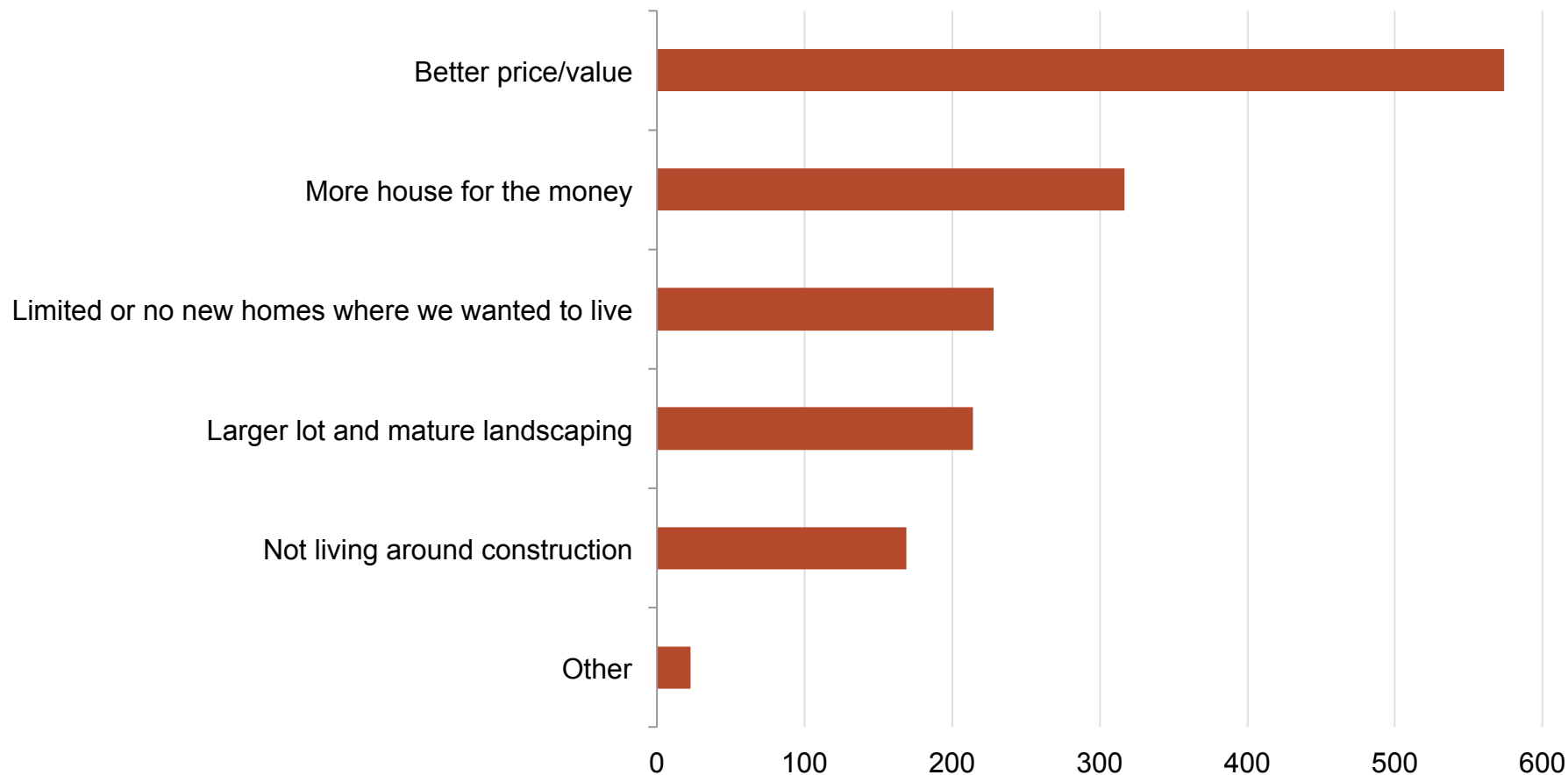
- Regardless of future tenure or housing type, seven out of ten Millennials believe they will live in a detached or attached single-family home by 2020. These forward looking expectations are almost identical to a survey from 2010.
- 70% expect to own by 2020 while only 26% currently owned at the time of the survey in Nov 2014
- Top reasons for homeownership include:
 - Building equity, not paying rent (60%)
 - More control over space (54%)
 - More privacy (41%)
 - More room (31%)
 - Feel more settled (31%)



Source: UDR/Lachman Associates Survey for ULI, Nov 2014

BETTER VALUE AND A LARGER SIZE LEAD TREND IN PURCHASING EXISTING HOMES OVER NEW

Why Respondents Chose Existing

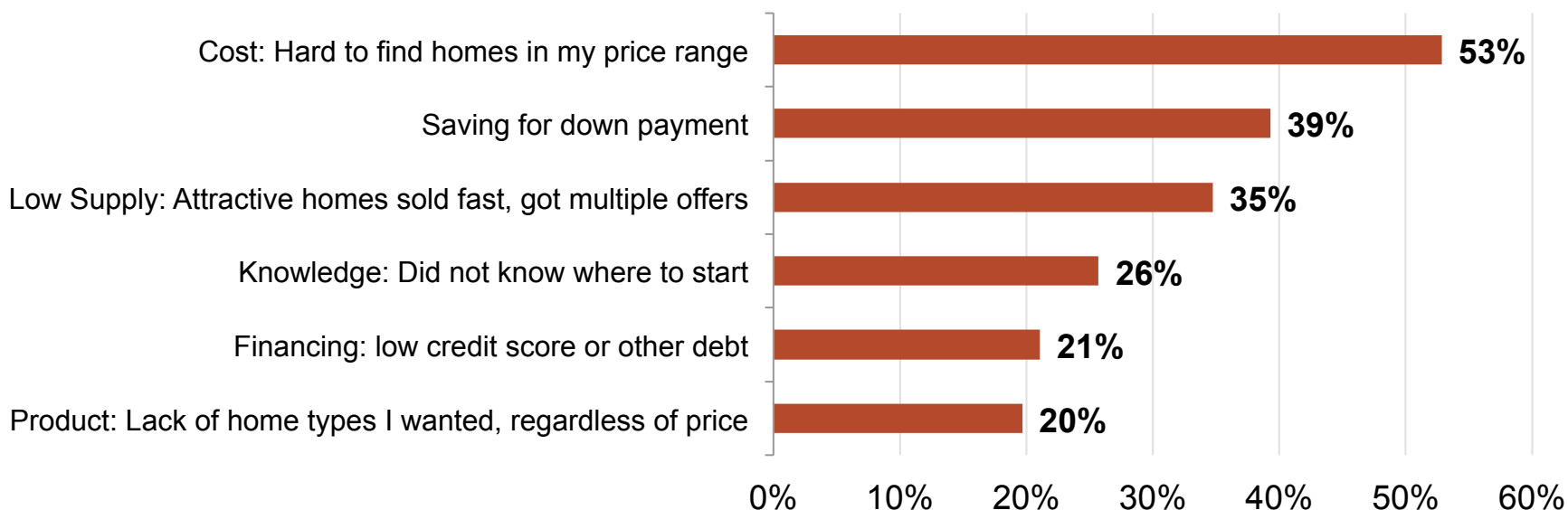


Source: RCLCO 2016 Survey

FIRST-TIME BUYERS DOWN, LARGELY DUE TO PRICE

- 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**

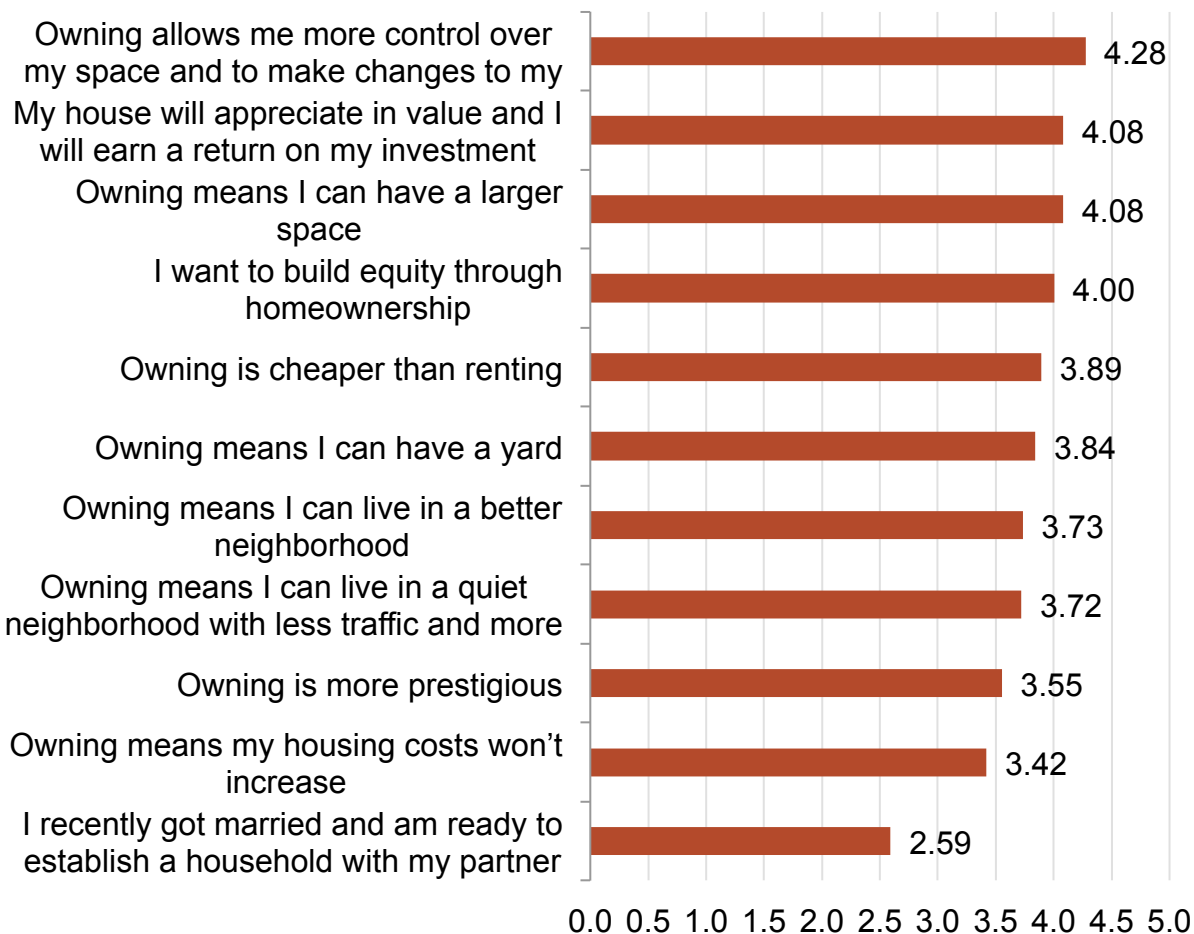


Source: RCLCO December 2015 national survey of recent first-time homebuyers. N=1,077.

BUT FIRST-TIME HOMEBUYERS STILL SEE OWNERSHIP AS A GOOD INVESTMENT

- The top reasons that first-time homebuyers gave when asked why they chose to own included:

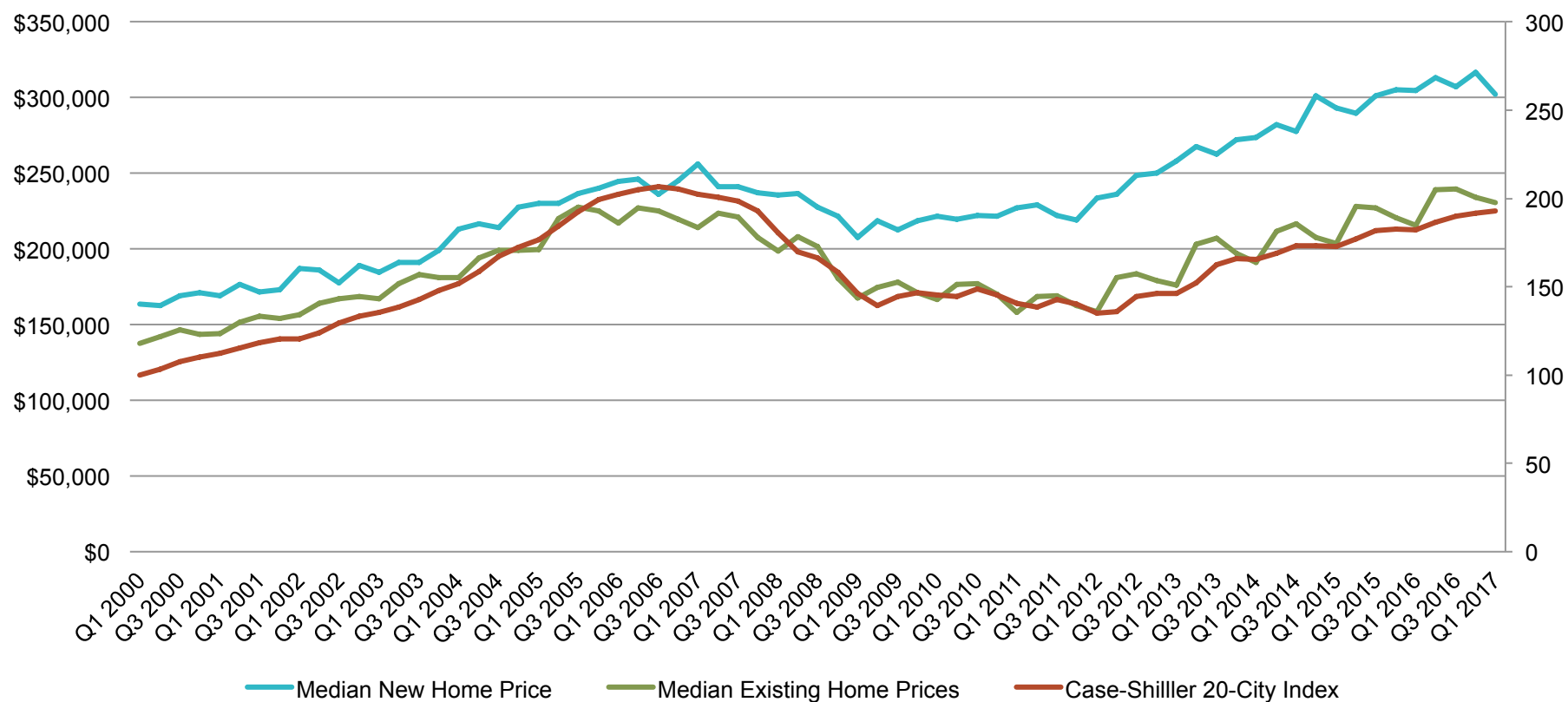
- Building equity
- Getting a future return on investment
- Having more space
- Having control over space



Source: RCLCO 2016 Survey

BUT, PRICING CONTINUES TO INCREASE

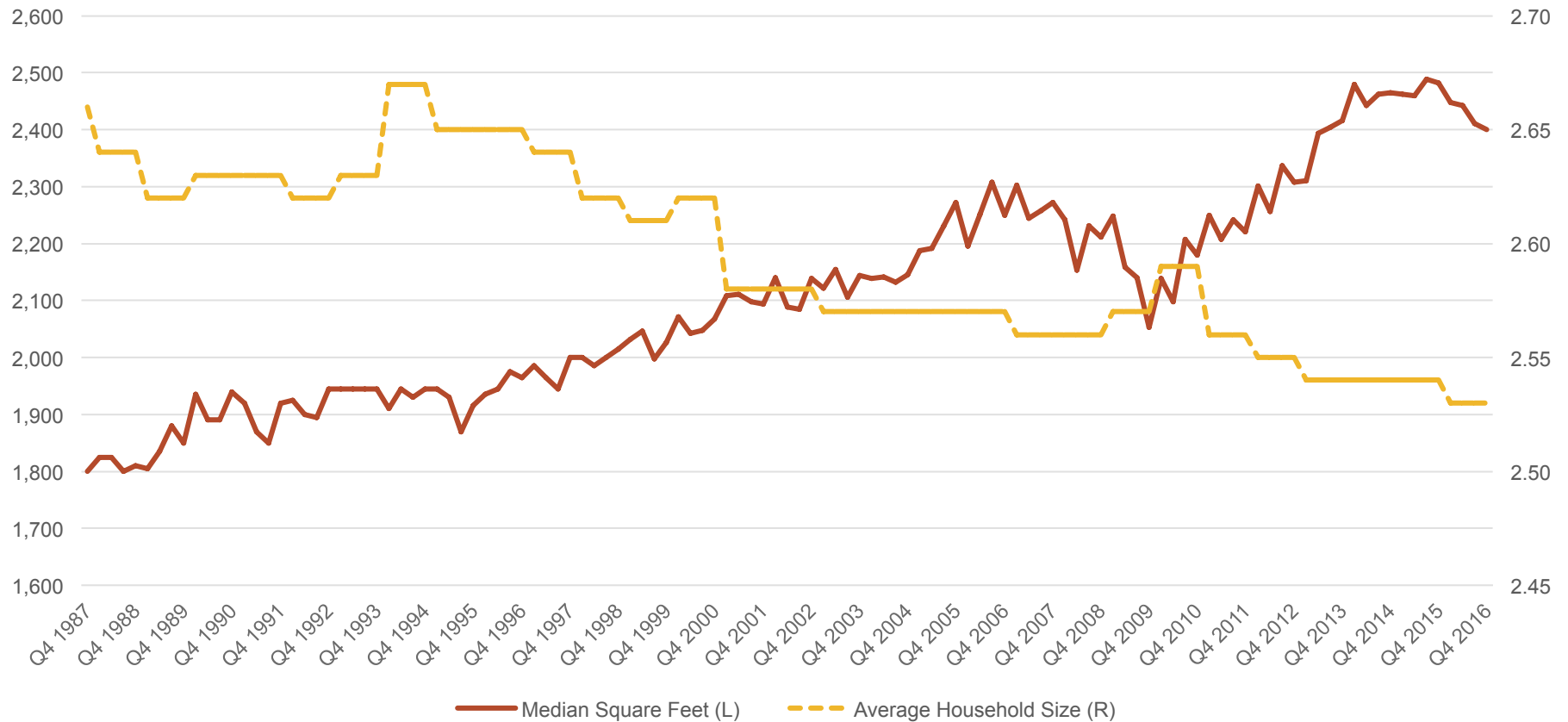
Median Home Price and Case-Shiller 20-City Price Index (2000 – Q1 2017)



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

HOME SIZE FINALLY TAKING A DIP

Completed New Homes and Household Size - United States

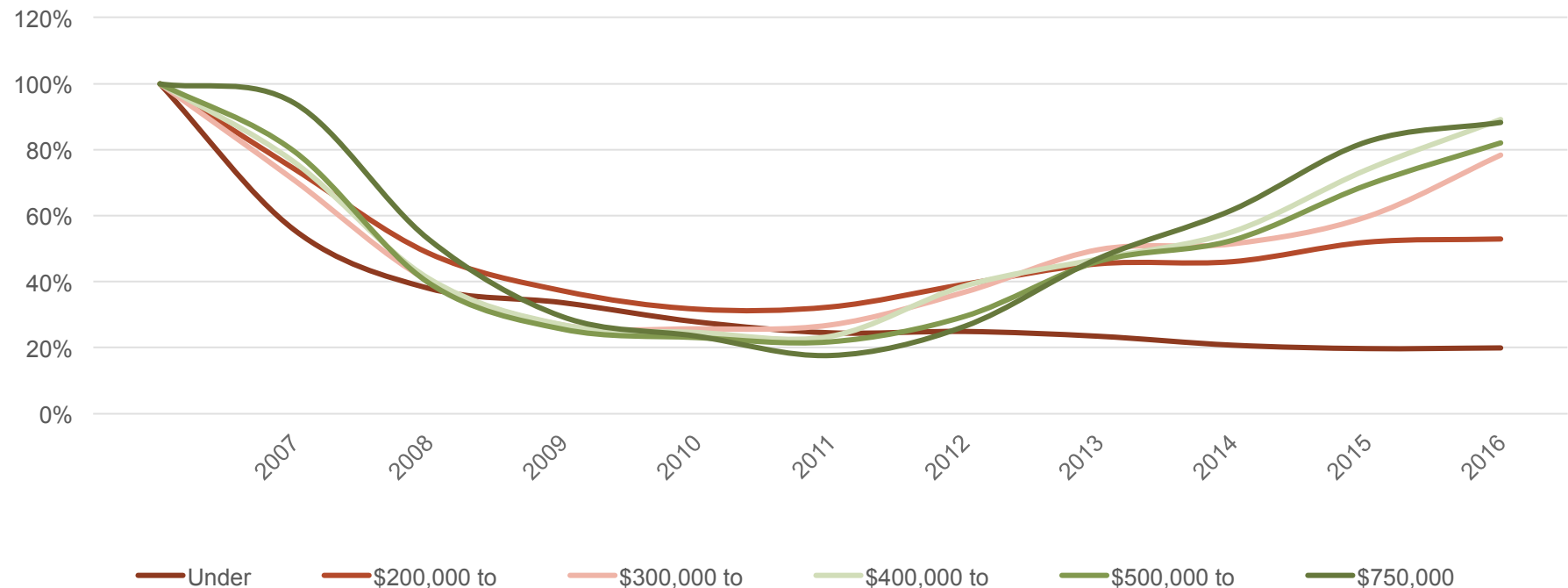


Source: US Census Survey of Construction; Current Population Survey

NEW HOMES NO LONGER AVAILABLE IN AFFORDABLE PRICE BANDS

New Home Sales by Price Band Relative Pre-Recession Levels (2003-2006 Average = 100%)

United States



Absolute New Home Sales by Price Band (000s)

United States

| | Under \$200,000 | \$200,000 to \$299,999 | \$300,000 to \$399,999 | \$400,000 to \$499,999 | \$500,000 to \$749,999 | \$750,000 and over | Overall |
|-------------------|--------------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------------------|--------------|
| 2003-2006 Average | 481 | 306 | 171 | 85 | 78 | 34 | 1,156 |
| 2012 | 120 | 120 | 63 | 33 | 23 | 9 | 368 |
| 2013 | 113 | 139 | 85 | 40 | 36 | 16 | 429 |
| 2014 | 100 | 141 | 88 | 47 | 41 | 21 | 438 |
| 2015 | 95 | 159 | 102 | 63 | 54 | 28 | 501 |
| 2016 | 96 | 162 | 134 | 76 | 64 | 30 | 562 |

Source: U.S. Census

SIMILAR STORY IN HOUSTON

New Home Sales by Price Band Relative Pre-Recession Levels (2003-2006 Average = 100%)

Houston, TX MSA



Absolute New Home Sales by Price Band

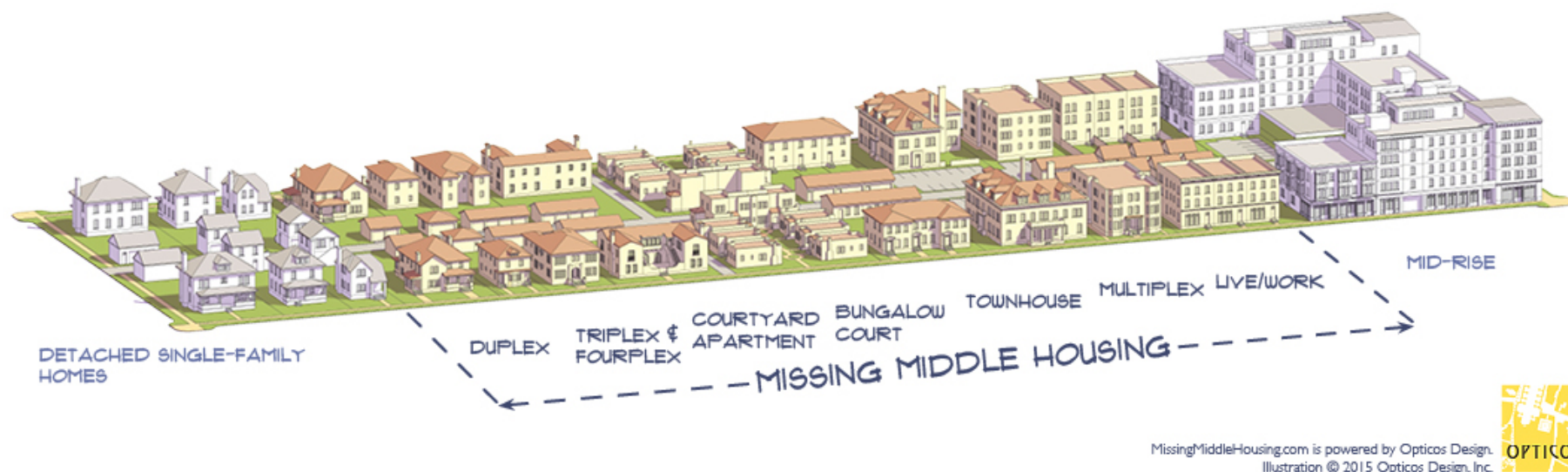
Houston, TX MSA

| | Under \$200,000 | \$200,000 to \$299,999 | \$300,000 to \$399,999 | \$400,000 to \$499,999 | \$500,000 to \$749,999 | \$750,000 and over | Overall |
|-------------------|--------------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------------------|---------------|
| 2003-2006 Average | 28,682 | 8,093 | 2,831 | 935 | 713 | 708 | 41,961 |
| 2012 | 9,596 | 6,114 | 3,060 | 1,316 | 989 | 641 | 21,716 |
| 2013 | 9,310 | 7,516 | 4,202 | 2,149 | 1,586 | 829 | 25,592 |
| 2014 | 8,559 | 8,291 | 5,148 | 2,961 | 2,343 | 1,249 | 28,551 |
| 2015 | 6,151 | 9,113 | 5,640 | 3,270 | 2,637 | 1,154 | 27,965 |
| 2016 | 4,430 | 10,381 | 6,196 | 3,087 | 2,051 | 888 | 27,033 |

Source: Metrostudy

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.”



Source: Opticos Design

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 may be 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, or too \$\$ because too large (lot and/or home).



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



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

As a **value** play:

- 6-12 units/acre
- Smaller unit sizes
- Simple construction (Type V)
- Lower parking ratios

As a **lifestyle** choice:

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

Appeals to...

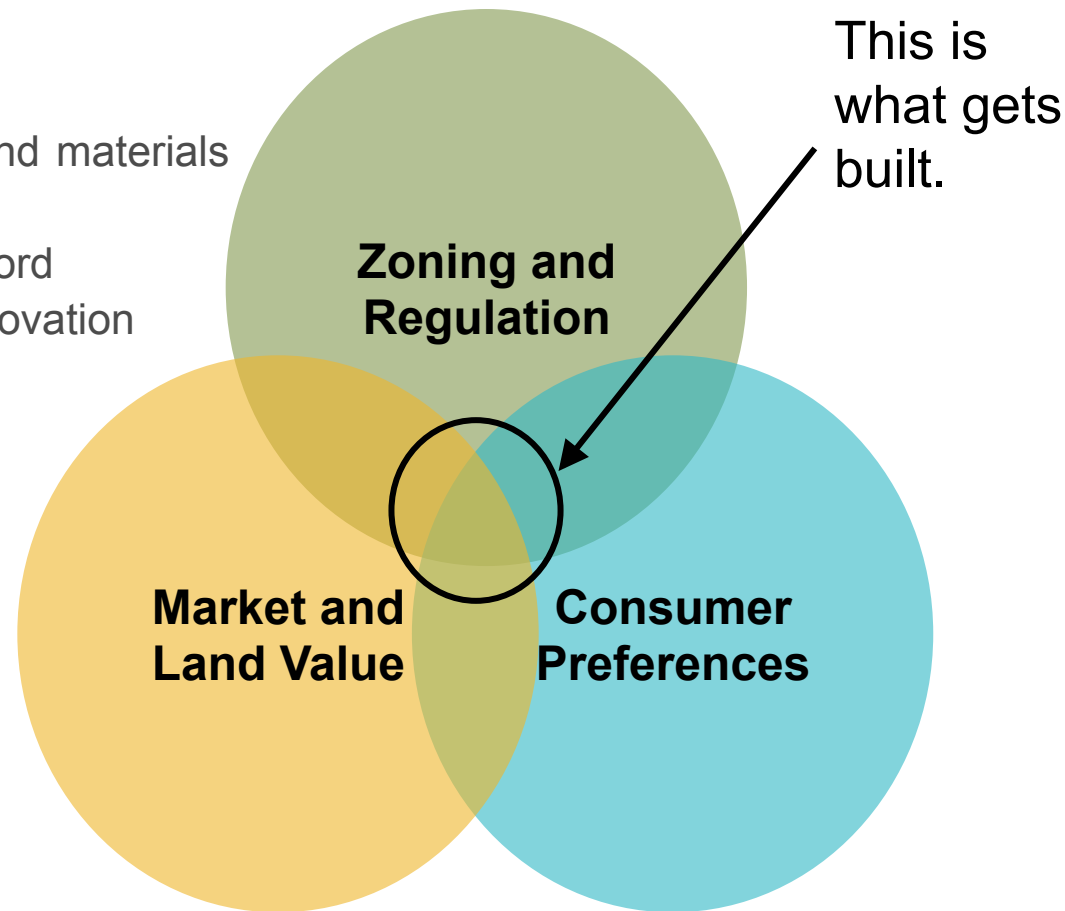
- Young families
- First-time buyers
- Middle-income buyers

- Empty nesters
- Professional singles/ couples

WHY CAN'T WE BUILD MIDSCALE, MIDPRICE?

Barriers include:

- Zoning regulations
- High land, labor, and materials costs
- Density is a dirty word
- Lack of product innovation



What new communities are innovating to build more midpriced and/or midscaled housing?

- Increasingly **integrates technology into community**, stays on the cutting edge of trends affecting real estate (self driving cars, the cloud, Google Fiber, new developments in glass, batteries, sensors, etc...)
- **Environmental Stewardship**: Ties community to the outdoors with experiences, celebrates nature or eco-friendly ideals
- **Connection with local food** important – integrates community gardens, a CSA, cooking classes, restaurant
- Attracts on-site or nearby **employment and high-quality education**, critical for large multi-phase MPCs

Source: RCLCO

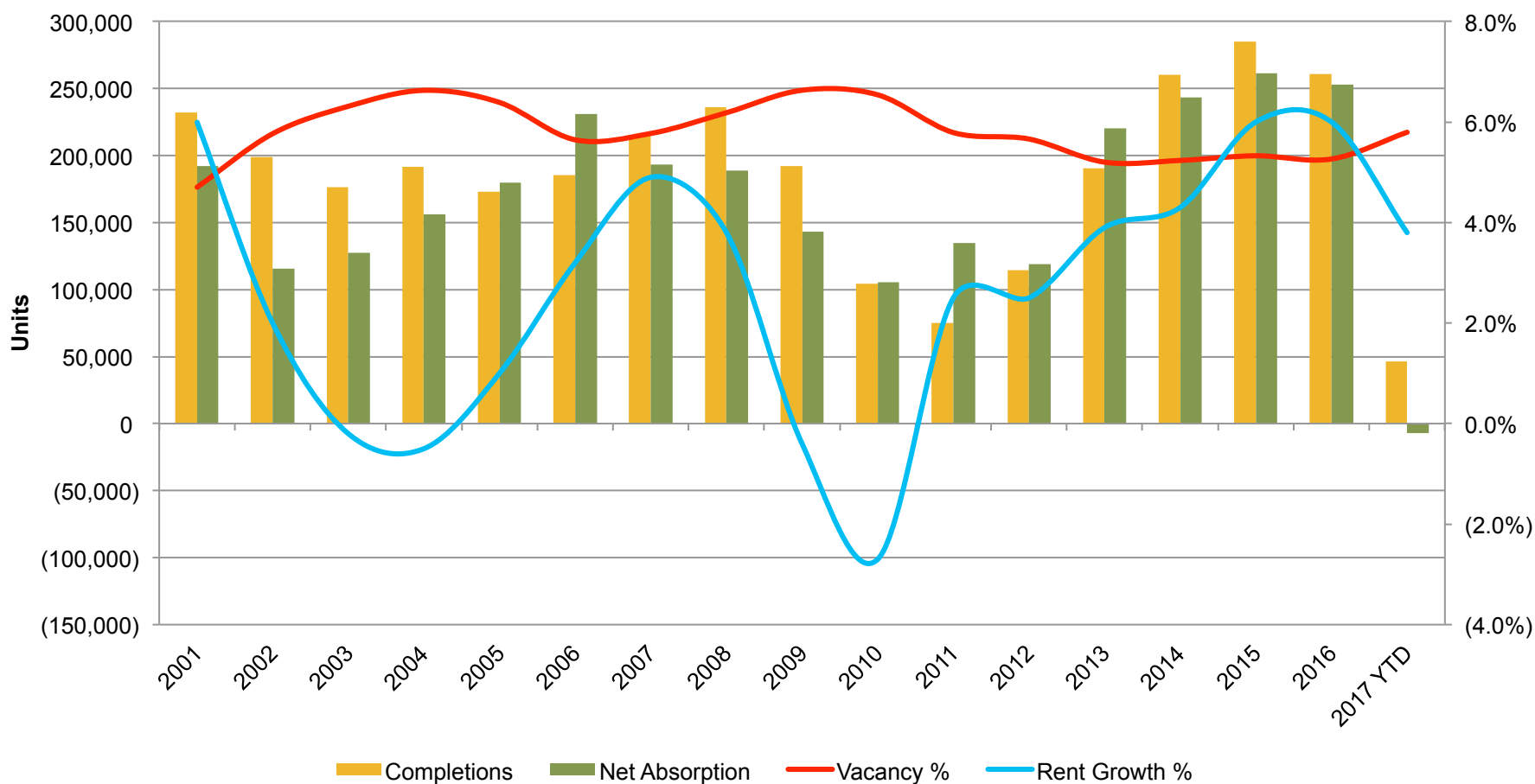
- **Builds a brand that tells a story**, describes a way of life, doesn't sell product but lifestyle
- **Focuses on a sense of community** and the people that inhabit it, include programming but make residents comfortable to create their own experiences
- Has **Authentic Spaces** and Experiences, integrate values and purpose in the design process
- Invests in mobility and accessibility, **walkability** in both urban and suburban settings (*bring urban to suburban*)

Source: RCLCO

APARTMENTS

Q-O-Q VACANCY INCREASES AS NET ABSORPTION IS NEGATIVE FOR THE FIRST TIME SINCE 2001

U.S. Apartment Absorption, Vacancy, Rent Growth

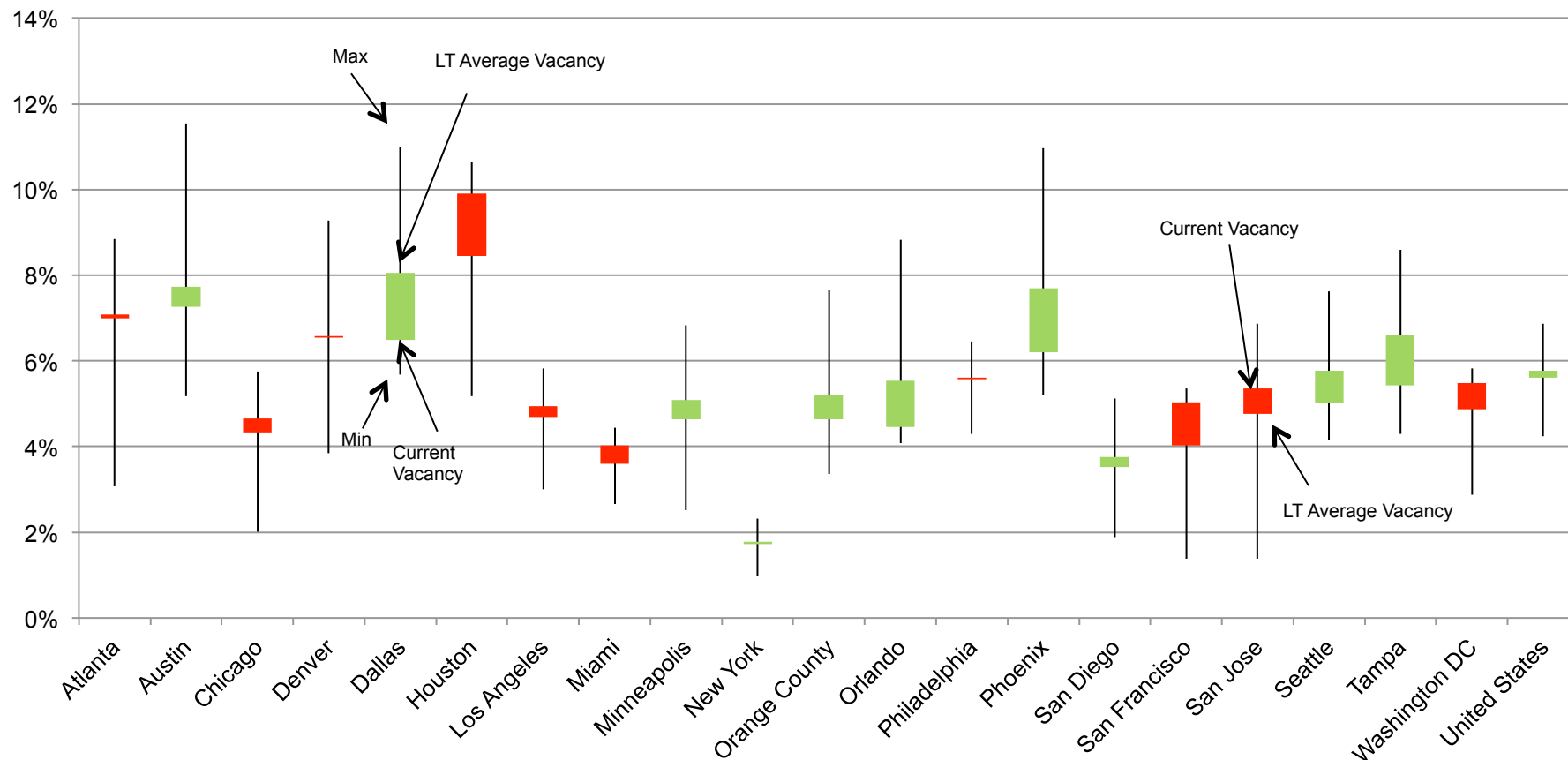


Note: Apartment criteria filtered as follows: multifamily property (secondary type is apartment), 50+ units, and a 3-star or greater CoStar rating
Source: CoStar; RCLCO

CURRENT VACANCY EXCEEDS LONG-TERM AVERAGE VACANCY IN AN INCREASING NUMBER OF MARKETS

Apartment Current and Long-term Vacancy

Green box - current vacancy < LT avg.
Red box - current vacancy > LT avg.



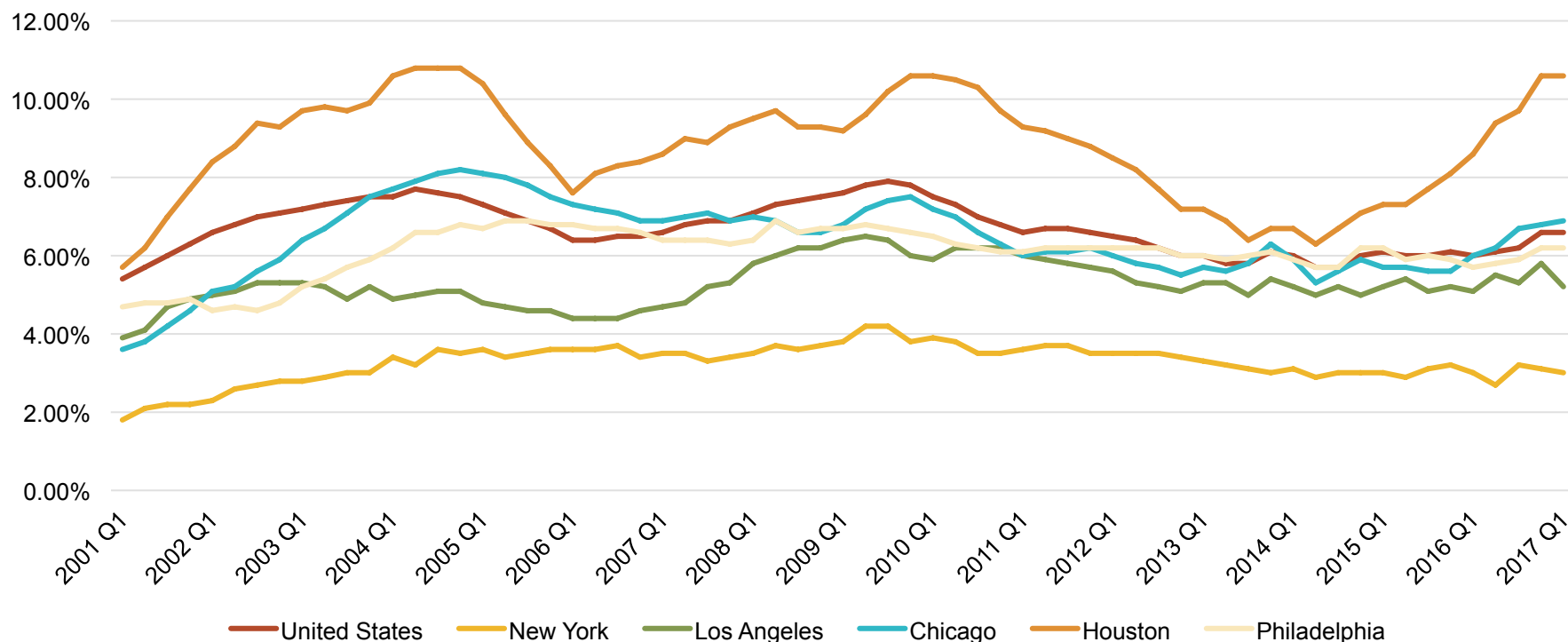
Note: The markets in the above chart are not necessarily MSAs or central cities, but are CoStar-defined real estate markets

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

APARTMENT VACANCIES INCREASING FROM HISTORIC LOWS IN DIVERSE MARKETS; HOUSTON VACANCY HAS RETURNED TO RECESSIONARY LEVELS

Vacancy in Five Largest Apartment Markets, 2000-2017



*As of Q1 2017

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

Note: The markets in the above chart are not necessarily MSAs or central cities, but are CoStar-defined real estate markets

Source: CoStar; RCLCO

WHERE ARE WE TODAY?

| DRIVERS/INDICATORS (EXAMPLES) | IMPACT ON PERFORMANCE/ PRICING | IMPLICATIONS |
|-------------------------------|-----------------------------------|--------------|
|-------------------------------|-----------------------------------|--------------|

Property Market Fundamentals

| | | | |
|---------------|--|--|---|
| <u>Demand</u> | <ul style="list-style-type: none"> • Employment • Household formation • Consumer spending | Positive (Job, population, spending growth enhance demand) | Fundamentals are still healthy overall, but enhanced focus on local market conditions is required |
| <u>Supply</u> | <ul style="list-style-type: none"> • Occupancy • Construction | Neutral to Slight Negative (Construction catching up, sometimes exceeding, absorption) | |

Capital Market Fundamentals

| | | | | |
|---------------|--------------------|---|--|---|
| <u>Equity</u> | Demand (Buyers) | <ul style="list-style-type: none">Fundraising/“dry powder”Qualified offers per transaction | Neutral (Plenty of dry powder, but fundraising is slowing and cap rates are holding steady) | Currently, neutral to slight negative pressure on asset pricing |
| | Supply (Sellers) | <ul style="list-style-type: none">Transaction volume trends | | |
| <u>Debt</u> | Demand (Borrowers) | <ul style="list-style-type: none">Fundraising/“dry powder” | Slight Negative (Lenders continue to be highly judicious; slight upward pressure on interest rates) | |
| | Supply (Lenders) | <ul style="list-style-type: none">Lending standardsInterest rates/spreads | | |

Multifamily

Property: Supply reaching equilibrium in most markets, and exceeding it in some; expect record NOI growth to moderate.

Capital: Generally more capital available for MF than other property types thanks to GSEs, though expect slowing appetite as fundamentals moderate.

Office

Property: In 1Q 2017, for the first time in 5 years, absorption did not exceed new deliveries. Expect to see flattening performance improvement in most markets.

Capital: Continues to be abundant for quality buildings in “Gateway” CBDs and is now (cautiously) chasing yield in lesser quality assets and locations

Retail

Property: Very limited construction activity continues to benefit operating performance, but certain retail types and locations may suffer from “structural obsolescence,” thanks primarily to e-commerce.

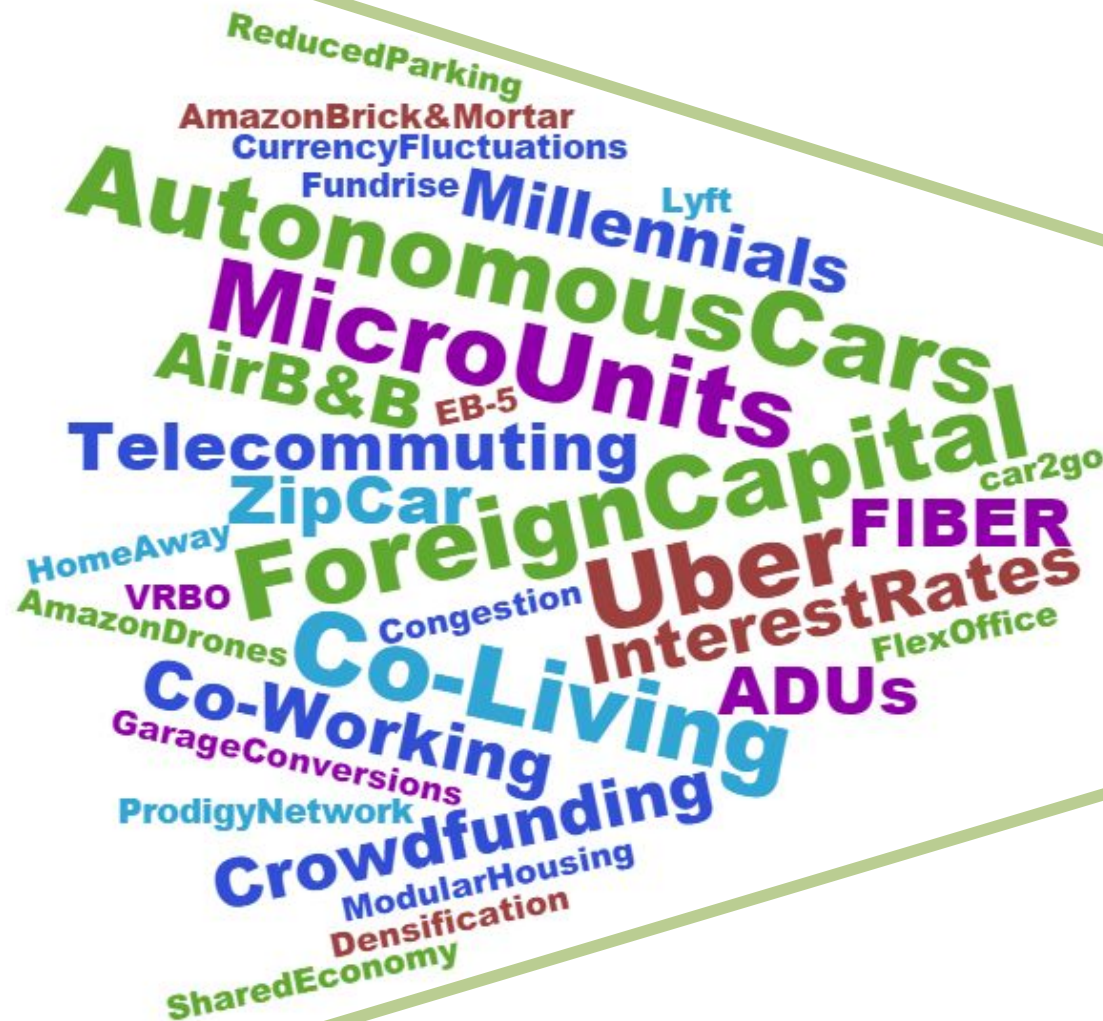
Capital: Investor appetite insatiable for “trophy” malls and well-located grocery-anchored centers, but muted for retail types facing threats (obsolete malls, power centers).

Industrial

Property: The healthiest major property sector as demand continues to outpace new supply deliveries.

Capital: Continued growth in capital interest for industrial as investors view past performance and perceive structural changes in shopping patterns.

REAL ESTATE DISRUPTORS



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