FAMILY RENTAL HOUSING: A GROWING NEED AND EMERGING OPPORTUNITY
The Baltimore Story

Adam Ducker, Senior Managing Director
October 28, 2020
1/3 of American renter households are families – an incredibly diverse group defined here as homes with children under the age of 18.

Despite the broad change from ownership to renting, there was little growth in the number of households with children in the U.S. in the last decade and very little development targeted this cohort.

In the 2020s, as Millennials have children, family renter households will represent 8% of growth in the U.S. and a significant market opportunity presents itself.

The development community is beginning to react to this opportunity in a number of ways. From suburban townhouses to multifamily apartments, family-oriented rental housing is starting to emerge across the country and these emerging product types are highlighted in this report.
FAMILY RENTAL HOUSING FRAMING QUESTIONS

1. Who are family rental households in the United States?
2. What can we say about this cohort as a market opportunity?
3. Where do they live today and what are we building for them (hint: not much)?
4. How are the Maryland markets different than other markets in the United States?
5. How is the development community responding to the opportunity, locally and nationally?
6. What are the constraints and policy concerns?
AS WE START A NEW DECADE. . . WHY SHOULD WE CARE SO MUCH?

Projected Population by Age; United States
2020-2030

Source: United States Census Bureau; 2017 National Population Projections Tables; American Community Survey PUMS
LATER PERHAPS, BUT FAMILY FORMATION RATE LARGELY UNCHANGED

Family Composition by Age Cohort and Generation; Philadelphia MSA
2018

Source: United States Census Bureau; American Community Survey PUMS

REAL ESTATE ADVISORS
RENTERSHIP RATES RISING IN EVERY AGE COHORT
FAMILY AGE HOUSEHOLDS SWITCH TO RENTAL HAS BEEN PARTICULARLY STRONG

Homeownership by Age; Philadelphia MSA 2005-2018

Homeownership by Age; Baltimore MSA 2005-2018

Source: iPUMS; RCLCO

Family Rental Housing: A Growing Need and Emerging Opportunity | 10/28/2020 | 6
WHY DO RENTERS RENT?

**Reasons For Renting by Income Tier;**
United States; 2019

- Can't afford the downpayment
- Can't qualify for a mortgage
- Cheaper to rent than own
- More convenient to rent
- Plan on moving soon
- Simply prefer to rent
- Currently looking to buy

**Distribution of Renter Households by Household Income;**
United States; 2012-2018

- Less than $50k
- $50-$100k
- More than $100k

Source: RCLCO Consumer Research, Selected Markets
SO WHAT TYPE OF HOUSING DO THESE RENTERS LIVE IN TODAY?

NOTE THE HIGH PROPORTION OF TOWNHOME RENTER FAMILIES IN THE TWIN CITIES

**Current Type of Residence by Household Type; United States; 2018**

- **Family Renters**
  - Single-Family Detached: 38%
  - Single-Family Attached: 9%
  - Multifamily: 48%
  - Other: 5%

- **Other Renters**
  - Single-Family Detached: 22%
  - Single-Family Attached: 5%
  - Multifamily: 71%
  - Other: 3%

**Current Type of Residence by Household Type; Philadelphia MSA; 2018**

- **Family Renters**
  - Single-Family Detached: 43%
  - Single-Family Attached: 11%
  - Multifamily: 45%
  - Other: 1%

- **Other Renters**
  - Single-Family Detached: 5%
  - Single-Family Attached: 22%
  - Multifamily: 73%
  - Other: 0%

**Current Type of Residence by Household Type; Baltimore MSA; 2018**

- **Family Renters**
  - Single-Family Detached: 42%
  - Single-Family Attached: 16%
  - Multifamily: 42%
  - Other: 0%

- **Other Renters**
  - Single-Family Detached: 9%
  - Single-Family Attached: 18%
  - Multifamily: 73%
  - Other: 1%

Source: United States Census Bureau; American Community Survey PUMS
## SO WHAT TYPE OF HOUSING DO THESE RENTERS LIVE IN TODAY?

### Distribution of Occupied Rental Housing Unit by Product Type; Raleigh Durham MSA 2018

<table>
<thead>
<tr>
<th>PRODUCT TYPE</th>
<th>SINGLE</th>
<th>COUPLE</th>
<th>ROOMMATES</th>
<th>FAMILY</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>SFD</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>5%</td>
<td>11%</td>
</tr>
<tr>
<td>SFA</td>
<td>5%</td>
<td>3%</td>
<td>5%</td>
<td>12%</td>
<td>25%</td>
</tr>
<tr>
<td>2-4 Unit Buildings</td>
<td>6%</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
<td>11%</td>
</tr>
<tr>
<td>5-49 Unit Buildings</td>
<td>17%</td>
<td>6%</td>
<td>5%</td>
<td>9%</td>
<td>37%</td>
</tr>
<tr>
<td>50+ Unit Buildings</td>
<td>12%</td>
<td>2%</td>
<td>1%</td>
<td>1%</td>
<td>16%</td>
</tr>
<tr>
<td>Other</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>41%</td>
<td>14%</td>
<td>15%</td>
<td>29%</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Source: American Community Survey PUMS*
AND WHO ARE WE BUILDING FOR?

Average Size of New Multifamily Units Delivered; United States
2000-2019

Source: Axiometrics; RCLCO
AND WHO ARE THESE RENTAL HOUSEHOLDS?
SIGNIFICANT LOCAL REPRESENTATION OF HIGH INCOME RENTER FAMILIES
AND WHO ARE THESE RENTAL HOUSEHOLDS?

WONDERFULLY VARIED AND COMPLEX

Marital Status of Family Households;
United States; 2018

Marital Status of Family Households;
Philadelphia MSA; 2018

Marital Status of Family Households;
Baltimore MSA; 2018

Source: United States Census Bureau; American Community Survey PUMS
1. SUBURBAN RENTAL APARTMENTS FOR FAMILIES
Some signs of life in this sector

The Arbors (Bozutto?); White Marsh; Baltimore, Maryland

- Lots of Two-bedrooms or more
- Two-bedrooms avg. 1,200+; Three-bedrooms 1,500-2,000+
- Large unit rents problematic.
- Good schools
- Family amenities!

Source: Developer Website
2. SUBURBAN SINGLE-FAMILY HOMES FOR-RENT

Sector emerging in the fast-growing sunbelt region

Homestead at Hartness Cottage Homes; Greenville, South Carolina

- 70% three-bedrooms
- Average unit size of 1,650 SF
- Rents $1.16
- Low cost amenities focused on outdoor, active lifestyle

Source: Community Website
WHAT DO WE KNOW ABOUT SINGLE-FAMILY RENTERS SPECIFICALLY

Single-Family Renters Household Composition; United States; 2019

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Multifamily Renters</th>
<th>Single-Family Renters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 35</td>
<td>11%</td>
<td>37%</td>
</tr>
<tr>
<td>35-64</td>
<td>31%</td>
<td>46%</td>
</tr>
<tr>
<td>65+</td>
<td>17%</td>
<td>11%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of Children</th>
<th>Multifamily Renters</th>
<th>Single-Family Renters</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>48%</td>
<td>70%</td>
</tr>
<tr>
<td>1-2</td>
<td>25%</td>
<td>37%</td>
</tr>
<tr>
<td>3+</td>
<td>5%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source: RCLCO Consumer Research, Selected Markets
## HOW QUICKLY WILL THE HOUSING INDUSTRY PIVOT?

### RCLCO Macro Housing Demand Forecast; United States

#### 2019-2029

<table>
<thead>
<tr>
<th></th>
<th>HISTORICAL GROWTH IN OCCUPIED INVENTORY</th>
<th>STRUCTURAL DEMAND</th>
<th>REALIZED DEMAND</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Headship</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Married</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>% With Children</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% in MF</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Own</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NEW HHs</strong></td>
<td>1,149,368</td>
<td>1,017,314</td>
<td>1,408,563</td>
</tr>
<tr>
<td>SF</td>
<td>588,558</td>
<td>747,535</td>
<td>960,314</td>
</tr>
<tr>
<td>Own</td>
<td>138,221</td>
<td>670,760</td>
<td>409,565</td>
</tr>
<tr>
<td>Rent</td>
<td>450,337</td>
<td>76,776</td>
<td>550,750</td>
</tr>
<tr>
<td><strong>2-4 Unit/Other</strong></td>
<td>39,086</td>
<td>-115,708</td>
<td>183,472</td>
</tr>
<tr>
<td>Own</td>
<td>39,404</td>
<td>43,838</td>
<td>83,515</td>
</tr>
<tr>
<td>Rent</td>
<td>-318</td>
<td>-159,546</td>
<td>99,958</td>
</tr>
<tr>
<td><strong>MF</strong></td>
<td>521,725</td>
<td>385,487</td>
<td>264,777</td>
</tr>
<tr>
<td>Own</td>
<td>227,348</td>
<td>249,073</td>
<td>173,669</td>
</tr>
<tr>
<td>Rent</td>
<td>294,377</td>
<td>136,414</td>
<td>91,108</td>
</tr>
<tr>
<td><strong>Owners</strong></td>
<td>404,973</td>
<td>963,671</td>
<td>676,071</td>
</tr>
<tr>
<td>Renters</td>
<td>744,395</td>
<td>53,643</td>
<td>661,611</td>
</tr>
<tr>
<td><strong>Ownership Rate</strong></td>
<td>35.2%</td>
<td>94.7%</td>
<td>50.5%</td>
</tr>
</tbody>
</table>

Source: American Community Survey PUMS
AND WHO ARE WE BUILDING FOR?

Annual SFR Supply Additions by Change in % of SFD Purpose Built as SFR
United States; 2010-2030

- Based on Historical SF Housing Starts
- Based on Projected SF Housing Starts

Source: Axiometrics; RCLCO

Purpose Built as SFR

- 2.50%
- 5%
- 7.50%
- 10%

United States; 2010-2030

RCLCO REAL ESTATE ADVISORS
AND WHO ARE WE BUILDING FOR?

Average Size of New Multifamily Units Delivered
United States; 1980-2019

- 137.2 MM Total U.S. Housing Units
- 122.8 MM Total Occupied Households
- 46.4 MM Rented Occupied Households
- 14.9 MM Single-Family Rentals
  - Located in Top 50 MSAs
- 5.4 MM Located in Top 50 MSAs

Key metrics of the 14.9 million single-family rentals:

- Median monthly rent: $1,073
- Median housing cost as % of income: 33.2%
- Median size of home (square feet): 1,210

Percentage of Total U.S. Single-Family Rental Properties by Portfolio Size

- 1 to 2: 79%
- 3 to 5: 9%
- 6 to 10: 4%
- 11 to 100: 6%
- 100+ (Institutional): <2%

Source: Axiometrics; RCLCO
VALUE PROPOSITION? RENTING GENERALLY CHEAPER THAN OWNING

**Comparison of Monthly Costs of Owning and Renting: New Homes***
Raleigh Area; 2020

<table>
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<tr>
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<tbody>
<tr>
<td>5%</td>
<td>$2,500</td>
<td>$2,500</td>
<td>$2,000</td>
<td>$1,500</td>
</tr>
<tr>
<td>10%</td>
<td>$2,500</td>
<td>$2,500</td>
<td>$2,000</td>
<td>$1,500</td>
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<tr>
<td>15%</td>
<td>$2,500</td>
<td>$2,500</td>
<td>$2,000</td>
<td>$1,500</td>
</tr>
<tr>
<td>20%</td>
<td>$2,500</td>
<td>$2,500</td>
<td>$2,000</td>
<td>$1,500</td>
</tr>
</tbody>
</table>

**Comparison of Monthly Costs of Owning and Renting: Older Homes***
Raleigh Area; 2020

<table>
<thead>
<tr>
<th>Downpayment Amount (%)</th>
<th>Own: Resale Home</th>
<th>Rent: Older Apartment (pre-2010)</th>
<th>Rent: Older Apartment (pre-2010), 3BR</th>
<th>Rent: Older Single Family (pre-2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>$3,000</td>
<td>$3,000</td>
<td>$3,000</td>
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<tr>
<td>10%</td>
<td>$3,000</td>
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<td>20%</td>
<td>$3,000</td>
<td>$3,000</td>
<td>$3,000</td>
<td>$3,000</td>
</tr>
</tbody>
</table>
3. DETACHED/ATTACHED APARTMENTS
Some movement here as developers fill gap for needed transitional living

Orchard Ridge (Penrose); Baltimore, Maryland

► Redevelopment of Freedom Village Apartments, NE Baltimore
► Low density townhomes
► 3Br – 1,500 sf (too big?)
► Note the solar
► Rents < $1,000
► Not amenitized

Source: Community Website
3. RENTAL TOWNHOMES
Potentially works in so many place types
3. LUXURY RENTAL TOWNHOMES
Product solution gaining momentum as many young families are priced out of owning in desirable urban or inner suburban neighborhoods

Camden Highland Village Townhomes; Houston, Texas

► 38 three-bedroom or more townhomes in upscale urban Houston setting
► Average unit size of 2,300 SF
► Rents $2.06
► Luxury finishes
► Attached two-car garages, private entrances
► Shared amenities with neighboring apartment community

Source: Community Website
4. DETACHED/ATTACHED APARTMENTS
Some movement here as developers fill gap for needed transitional living

Sunrise on the Monon; Carmel (Indianapolis), Indiana

- Stacked apartments, look like townhomes
- Attached one- and two-car garages
- Benefits from high-performing public schools in upscale suburban setting
- 46% two-bedroom or more
- Average unit size of 1,100 SF
- Rents $1.31

Source: Community Website
4. DETACHED/ATTACHED APARTMENTS

Some movement here as developers fill gap for needed transitional living

Avilla Preserve; Phoenix, Arizona

- Detached, single story
- Net density of 20 DU/Acre+
- Rents 20% above conventional multifamily
- Can compete for land with MF guys
- Simple, efficient 2B+3B units
- Sacrifice on outdoor space
- Simple amenities – pool only

Source: Community Website
5. URBAN RENTAL APARTMENTS FOR FAMILIES
Green shoots – America going the way of Europe and Asia?

The Girard; Center City, Philadelphia

Source: Advisor Perspectives; U.S. Census
5. URBAN RENTAL APARTMENTS FOR FAMILIES

Still very little activity here

Kin on Union; Brooklyn, New York

- Condo project pivoted to family rentals
- Light design modifications for family target
- Studios, 1’s, 2’s and 3-BR’s
- Space: Family-friendly amenity spaces, gym, roof deck, stroller parking, baby-proofing kits
- Services: Nanny sharing + other childcare solutions, early childhood development programming, community-building app, tailored family perks + partnerships
- Achieving $6.00 psf (10% above underwritten rents), lease-up started on March 27th

Source: Developer Website
DEVELOPMENT COMMUNITY – WHY SO LITTLE ATTENTION HERE?

1. Why bother? Business is good. . .
2. Headlines (“Millennials”) so misleading?
3. Capital market guidance
4. There’s no good Baltimore market data
5. Not clear if the “juice is worth the squeeze”
REGULATORY ROAD BLOCKS

1. Single-family zoning
2. Urbanizing southeast communities (sadly) no longer want school kids
3. Traffic impacts is an unwinnable battle
4. Impact fee relief?
5. Do zoning and building codes in America drive the industry to luxury housing?
DISCUSSION QUESTIONS

1. Can (should) we discuss this as both a business opportunity and a social equity objective?
2. Will the development community focus on non-luxury housing without public incentives to do so? What needs to happen to tip the balance?
3. What new housing types have we missed here?
4. What dynamics are unique to Maryland?
5. What data, information and support can ULI provide to encourage the above?
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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