all new for 2019

REAL ESTATE TRENDS

INVESTMENT FORECAST FOR 2019 – WHAT YOU **REALLY** NEED TO KNOW

WEBINAR WILL START AT 6.03 PM PST, AUDIO IS MUTED UNTIL THEN

grocapitus

MultifamilyU

Real Estate Trends Agenda

What we are going to cover today

2019 Outlook – U.S. Economy + Jobs, Inflation, Unemployment, Consumer Confidence

The economy has a huge impact on Real Estate prices and cap rates

Interest rate forecast For 2019

Rising interest rates are having a huge impact

Single Family forecast For 2019

The storm clouds are gathering, but it's not raining yet in most parts of the Country

Multifamily forecast For 2019

A Balanced market is held back by labor shortages, interest rate hikes &

The Story of Apartments in 10 dynamic charts

Learn exactly why Workforce apartment rent growth is MUCH greater than the 10-yr and 30-yr Trend lines

Time for the shootout

ALL NEW: Best cities and states in the U.S. for Real Estate in 2019 for Both Multifamily and Single Family

Neal’s picks for 2019

One national city and underperforming city that should do really well in 2019-2020

IMPORTANT DISCLAIMER

Please read

- We are not investment advisors, and this seminar is provided for educational purposes only.
- All investments involve different degrees of risk. You should be aware of your risk tolerance level and financial situations at all times.
- You are free to accept or reject all investment recommendations made by us. All services that we offer are subject to market risk and may result in loss to your investment.
- As you know, a recommendation is not a guarantee for the successful performance of an investment and we cannot guarantee against losses arising from market conditions.
- Do not invest your money on our recommendation alone. Consult a professional advisor.

Meet Neal

President and CEO, Grocapitus & MultifamilyU

Neal Bawa

CEO & Founder

Grocapitus

About Neal

- My companies have owned / managed a portfolio of over $150 Million
- Nearly 1,800 units of Multifamily and Student housing, in 7 states, over 300 investors
- Nationally known Multifamily mentor and speaker
- About 5,000 investors attend my Multifamily webinar series and hundreds attend Multifamily Boot camps
- Co-founder of the largest Multifamily Investing Meetup in the U.S. with 4000+ members. Thousands attend podcasts and I have been featured in over two dozen podcasts and radio shows.

Key Focus

Investor Management

Leasing and Tenant Marketing

Submarket and Property Selection

Operations and metrics

Grocapitus Portfolio & Track Record

Art City

Art City Center is a beautiful new construction mixed use project in Springville, UT. The iconic mid-rise secure access residential facility has 102 units. The project was completed in April 2018 and is halfway through lease-up.

Love Cove Resort

Marina and RV park acquired in Charlotte, NC in 2016, and turned into high-end glamping resort. Installed 16 of 36 cabins. Daily rate and occupancy climbing continuously. The model works and we are looking to buy more resorts.

The Point on Flamingo

192-unit C class property in Las Vegas purchased in May 2017. Borders UNLV campus on two sides, and is now transformed into purpose built student housing. It is run as full-service, furnished housing, rented by the bed to individual students. First 100 students now in.

Woods of Ridgmar

235-unit stabilized property acquired in Ft. Worth, TX in Dec 2016. We have rehabbed 150+ units to a higher spec. And have successfully raised rents and improved tenant base. Now issuing regular distributions.

Chelsea Place

174 unit Class C property in East Atlanta, 95% occupied. Value Add project with under market rents, will undergo light rehab and rents pushed to market . Two miles from our other Atlanta property, so lots of efficiencies here.

Property purchased December 2018

Rails on Main

322 unit new construction purpose-built student housing project next to the university in Buffalo, NY. First raise of $6.2MM used to buy land, demo, land remediation & rezoning. Project well timed as Buffalo economy surged in 2017. Starting construction 2018, for 2020 completion.

South Lake Side

6 Building, 237 unit project in Chicago. Well behind schedule for turnaround. 1st property mgr hired not a good fit. We are back to 85% physical occupancy and 80% economic occupancy (up from 50%). Pushing hard to get to cash flow positive.

Park Canyon

151 unit Class B Property in Dalton GA, Chattanooga Metro. Under market rents and 20 down units from a fire gives us opportunity to add significant value in this project.

Property purchased Nov 2018

Windward Forest

216 unit Class C Property in East Atlanta. 94% occupied property, will undergo light rehab on all units.

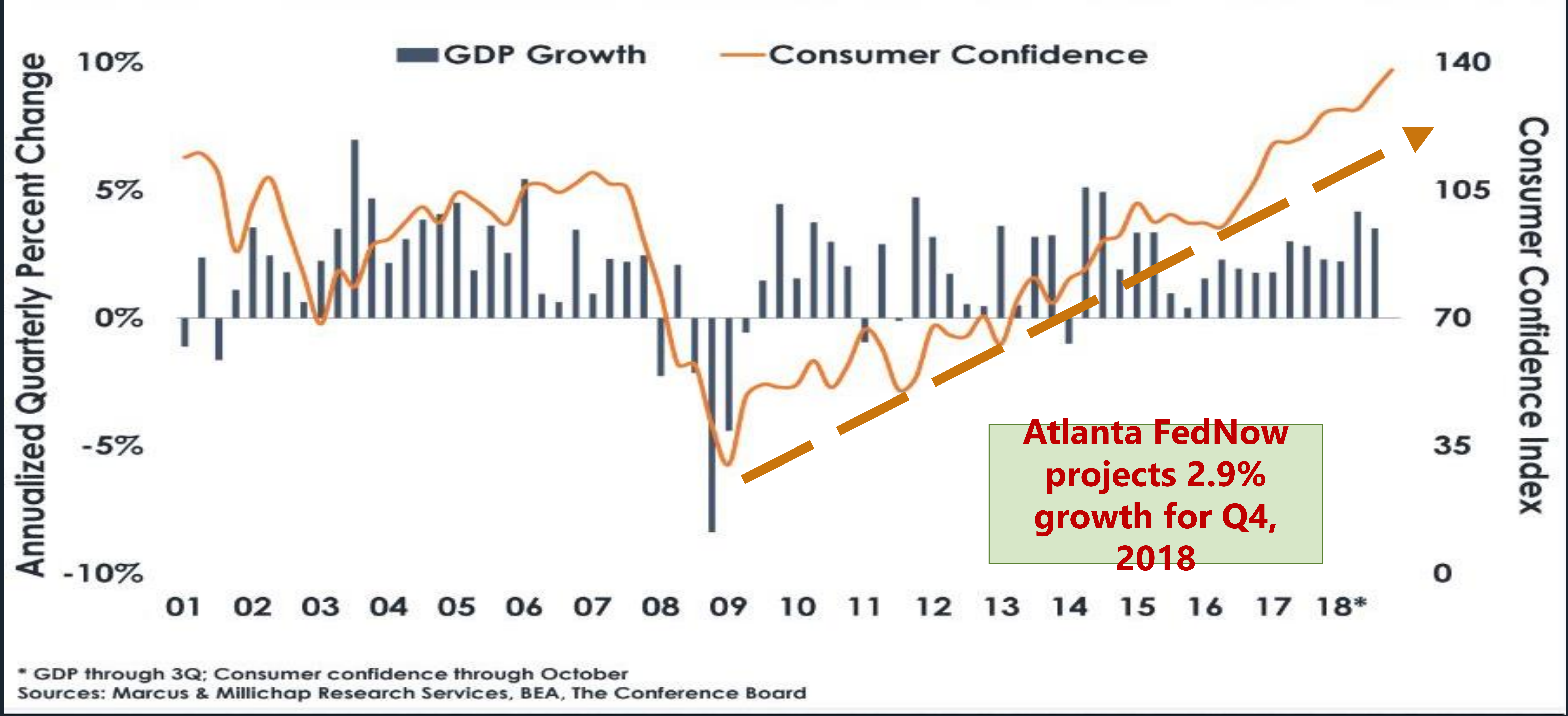
Property purchased Sept 13, 2018

LET'S START AT THE BEGINNING

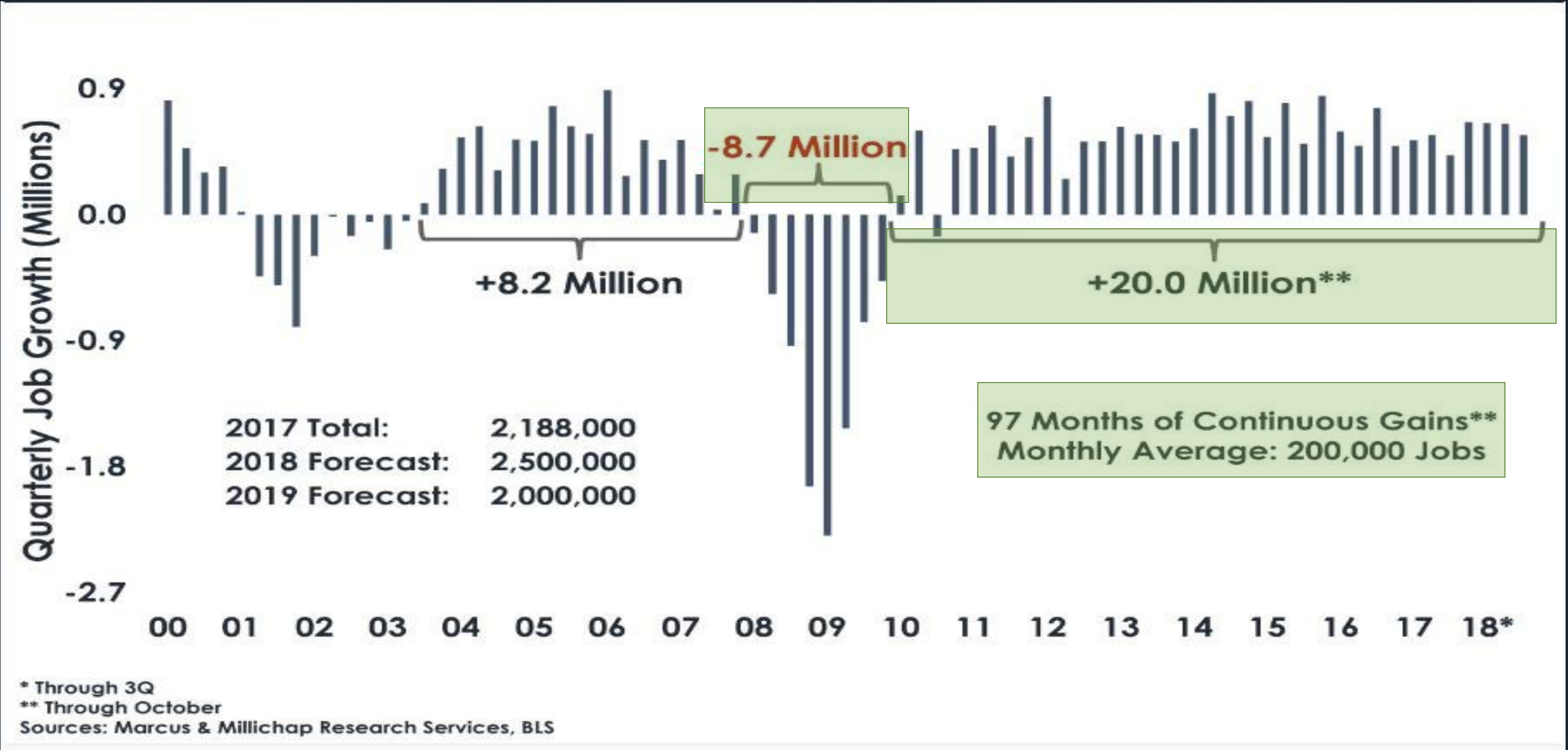
ECONOMY & DEMOGRAPHIC TRENDS FOR 2019

CONSUMER CONFIDENCE, INFLATION, JOB GROWTH, INCOME GROWTH

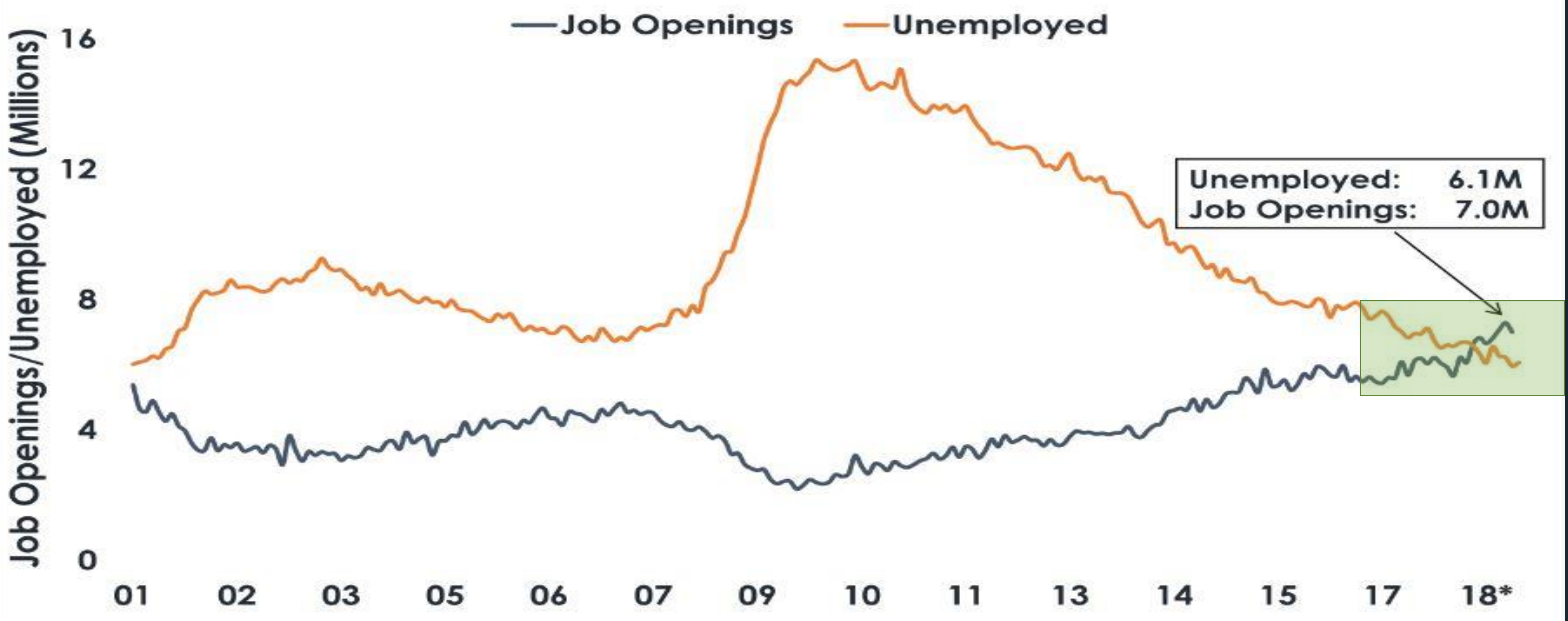
U.S. Economic Growth is Pretty Good –Q3 GDP Up 3.5%



Employment Growth Durable and Remarkably Stable



Labor Force Shortage Could Slow Growth Cycle While Boosting Inflation



* Job openings through September; Unemployed through October
Sources: Marcus & Millichap Research Services, BLS

Young Adult Unemployment at Record Low – Unlocking New Household Formation

Inflation Moving Up, but Not Sharply

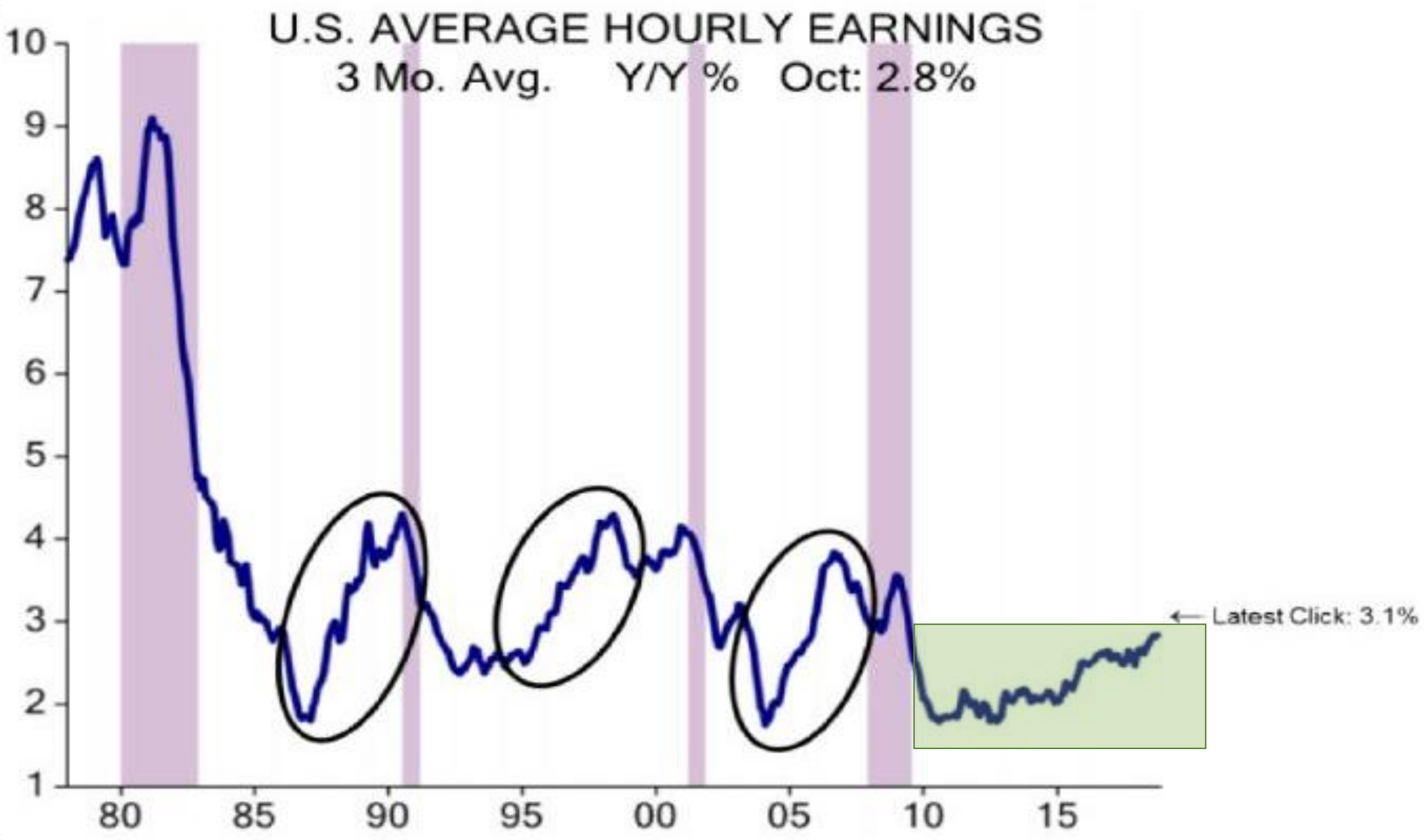
<u>1980's, 1990's, and 2000's:</u>

- Average hourly earnings accelerating from 2% to 4% in 2 ½ years

<u>Now:</u>

- Average hourly earnings have accelerated to just 2.7% in 5 years
- At this rate, won't hit 4.0% for another 9 years

<u>This argues for a very long expansion</u>



Source: Ed Hyman, Evercore ISI

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BOTTOM LINE: U.S. economy is in VERY good shape

o GDP/Employment up and growth is humming >3%, but appear to be leveling out at this growth rate. 2019 will be slower.

o Trade and immigration policies appear to be driving the downshift in the pace of growth

o Since the U.S. is now the largest oil producer in the world, Oil Prices cannot cause recessions anymore. We benefit both when they go up and down.

o Wages rising ~2.6% and labor market tight –people being pulled off the sidelines

o Inflation rising, but unlikely to break 2.5%;

INTEREST RATE FORECAST FOR 2019

WILL THE FEDERAL RESERVE END THE REAL ESTATE PARTY?

First – Where are rates now?

In December 2018, Fannie Mae said that 30 year Fixed rates were at 4.64%. While that's the lowest mortgage rates have been since September, they are still higher than a year ago. And by this time next year, experts predict rates will be even higher.

Despite steady climbing for the past two years, mortgage rates remain lower than they were during most of the recession and below average for the type of strong economic growth we’ve been experiencing. That will change in 2019, as the 30-year, fixed rate mortgage reaches 5.8% — territory not seen since the dark days of 2008 when rates were racing downward in response to the housing crisis.

— Aaron Terrazas, Zillow

Source: https://www.forbes.com/sites/alyyale/2018/12/06/2019-real-estate-forecast-what-home-buyers-sellers-and-investors-can-expect/#71739cb370d9

30 Yr fixed Interest Rate Forecast for 2019

Realtor.com

5.50%

Realtor.com estimates that the rate for a 30-year mortgage will reach 5.50% by the end of 2019

Zillow

5.80%

Zillow estimates that it could hit 5.80% in a year's time

Fannie Mae

5%

Fannie Mae is more moderate, predicting that rates will only increase to 5% by then


SINGLE FAMILY FORECAST FOR 2019
SINGLE FAMILY MARKET FACES SERIOUS HEADWINDS IN 2019

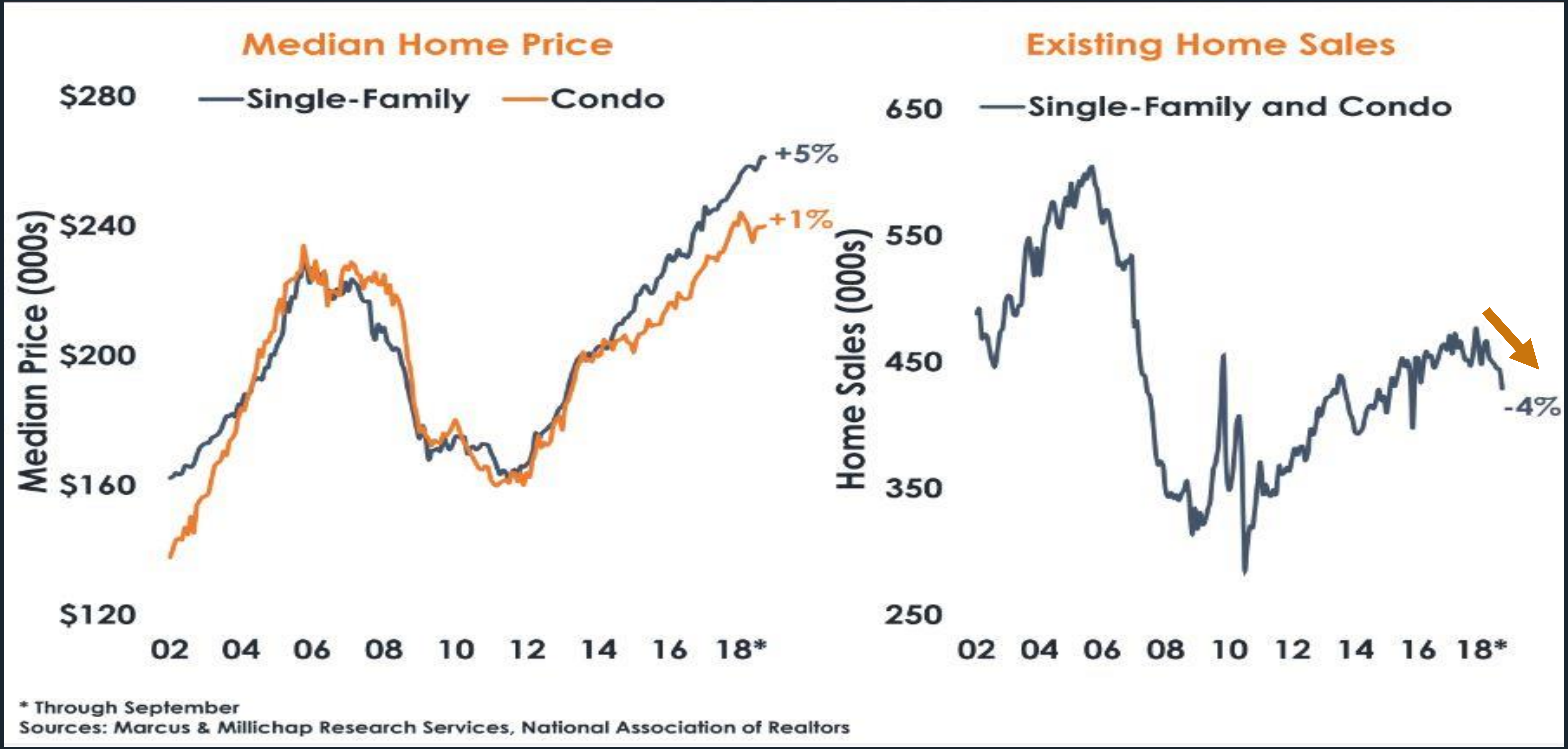
Why is the single family market slowing?

> This is an extremely mortgage-rate sensitive housing market. What’s driving the slowdown in price appreciation and the rise in inventory is not so much that inventory is being created, but that demand is decreasing.

— Daren Blomquist, Attom Data Solutions

Source: https://www.marketwatch.com/story/why-2019-wont-lead-to-a-home-buyers-market-2018-11-28

Single-Family Home Sales Losing Momentum; Rental Lifestyle Favored –For Now



> Most homebuyers budget a monthly payment. As rates rise, a fixed monthly payment translates into less borrowing capacity and buying power is down about 10% since the same time last year. As there are less buyers at each price point, the appropriate market response is a slowdown in sales and an easing in price momentum.
>
> ***— Tendayi Kapfidze, LendingTree***

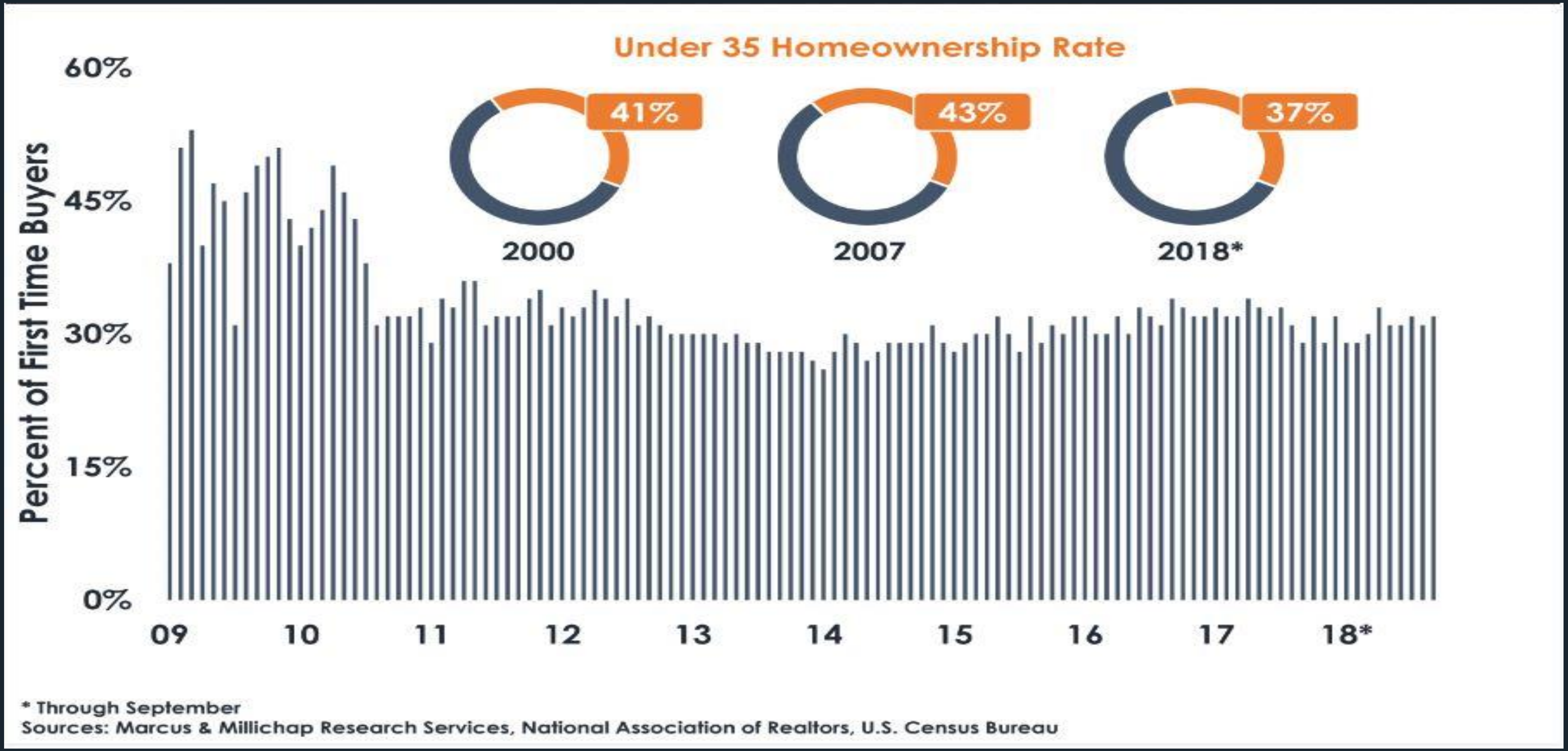
Source: https://www.forbes.com/sites/alyyale/2018/12/06/2019-real-estate-forecast-what-home-buyers-sellers-and-investors-can-expect/#71739cb370d9

Home sales volume Forecast for 2019

> As we look toward 2019, we are anticipating home sales (volume) to decline around 2%. We're expecting it to be another slightly slower year as buyers continue to wrangle with higher mortgage rates after contending with several years of rapid price growth.
>
> — ***Ruben Gonzalez, Keller Williams***

Source: https://www.forbes.com/sites/alyyale/2018/12/06/2019-real-estate-forecast-what-home-buyers-sellers-and-investors-can-expect/#71739cb370d9

Millennials Still Not Moving Into Homeownership



Home Price Increase Forecast for 2019

Realtor.com

2.2%

Realtor.com only expects the national median home price to increase 2.2% next year and for sales to drop 2%.

Zillow

3.8%

Zillow was a bit more upbeat, expecting home prices to rise 3.8%.

(In October, the median sales price only increased 3.8% from a year earlier amid a 1.8% annual uptick in home sales, the first such increase in six months.)

Bottom Line: What Single Family Home Buyers, Sellers And Investors Can Expect

- Mortgage rates will continue rising.
- Millennials will keep buying homes — despite those rising rates.
- Home buying power will decrease, but that could be a good thing.
- Overall home sales will drop.
- Inventory troubles will ease — not too much, though.
- Home price growth will continue to slow, but is likely to be positive.
- Buyers will see less competition, but that might not help first-timers.

Source: https://www.forbes.com/sites/alyyale/2018/12/06/2019-real-estate-forecast-what-home-buyers-sellers-and-investors-can-expect/#71739cb370d9

MULTIFAMILY FORECAST FOR 2019
A DELICATE BALANCING ACT

A BALANCED MARKET HAS OVEROME SUPPLY GLUT, BUT
NEW CONSTRUCTION REMAINS A BIG CHALLENGE FOR CLASS A

Let’s start with a look back at 2018

> Multifamily real estate posted another exceptional year in 2018. Whether judged by gains in property appreciation or income growth, multifamily fundamentals delivered.
>
> ***- Karlin Conklin, IMG***

Source: https://www.kiplinger.com/article/real-estate/T050-C032-S014-2019-real-estate-report-the-multifamily-market.html

> [We] believe that renters, both by choice and by necessity, will continue to escalate the demand for rental housing. We expect steady growth in renter households to continue in the future.
>
> ***— Tim Wang, Renter Nation***

Source: https://www.mba.org/mba-newslinks/2019/january/mba-newslink-friday-1-4-18/commercial/multifamily/demographics-socioeconomics-driving-multifamily-housing-demand

Video Clip – CBRE Commercial Real Estate Outlook

Source: https:/
market.html

Five BIG numbers that support long term Multifamily growth

10 million	500k	15 million	6%	$1.5 trillion
New renter households increased by nearly 10 million over the past 10 years	Estimated 500,000 new rental households per year through 2025. We only built 300K units per year in last 3 yrs.	Single population rose by 15 million above married couples over the past 10 years	Average student loan debt grew 6% year-over-year for the class of 2017 to $39,400	Student loan debt: $1.5 trillion

Trends for Multifamily

Rising Interest Rates (The 800-Pound Gorilla)

The Fed is expected to continue bumping up the federal funds rate through 2019. We project two interest rate hikes in 2019.

Supply Balance or Supply Glut?

Multifamily operating dynamics remained strong in 2018. Rising rents paired with high occupancies produced income growth that generally outpaced operating expense increases. Those robust operations and attractive financing delivered cash flows. But new supply in many markets has now caught up with or surpassed demand.

Variables such as trade tariffs, construction labor shortages and local government regulations are affecting multifamily.

BOTTOM LINE: Apartment construction and renovation opportunities are still there for savvy investors and syndicators, but the margin for error will certainly be thinner in 2019 than it was last year

Increasing Labor Costs Squeezing Multifamily Development Pipeline

A tightening labor market has forced developers of apartment properties across the country to push back or slow down the delivery of new supply.

According to the Bureau of Labor and Statistics, unemployment in the construction sector declined from 4.1% in September to 3.6% in October. Construction unemployment was 4.5% at this point last year.

Roughly 260,000 units were added to the country's inventory in 2018 and a Ten-X study from earlier this year projected another 255,000 units will be added in 2018.

Opportunity Zones - What You Need to Know

KEY REPORT FINDINGS

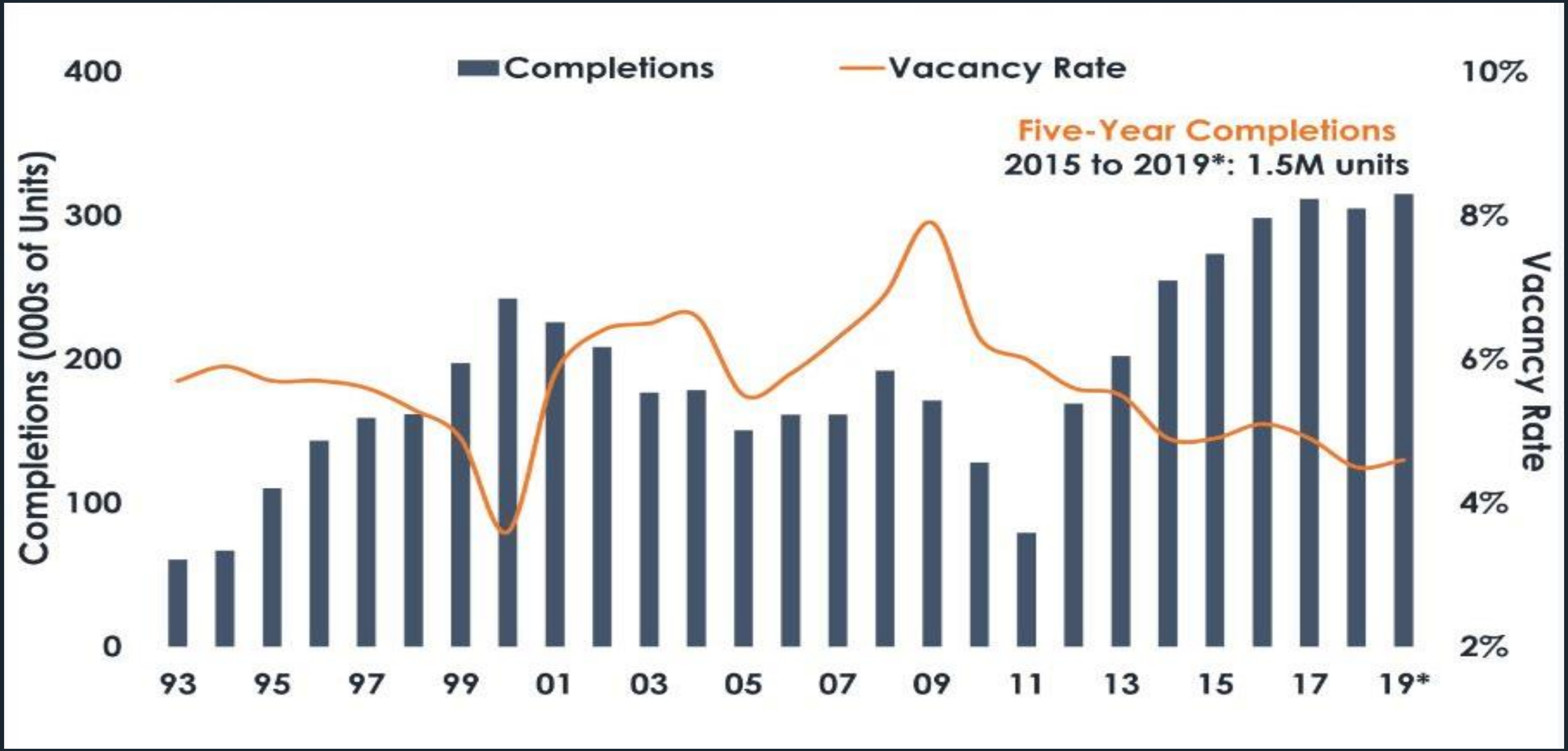
- Price trends of properties located in opportunity zones have in general tracked the overall market in the past 15 years, according to RCA price indicators
- A discount on properties in opportunity zones is more notable on a price per unit basis, with office, retail, seniors housing & care, and hotel properties showing the largest discount
- The **NYC Boroughs, Los Angeles** and **Phoenix** may prove to be the most active markets for opportunity zone funds given their larger market size and their relatively high proportion of opportunity zones
- Ownership of properties located in opportunity zones largely mirrors that of the market overall, with private, mostly local, investors owning the majority of the properties
- Development site sales in opportunity zones have surged, but across other property types no significant differences are yet seen in sales or development trends

Source: https://www.rentcafe.com/blog/rental-market/real-estate-news/us-average-apartment-size-trends-downward/

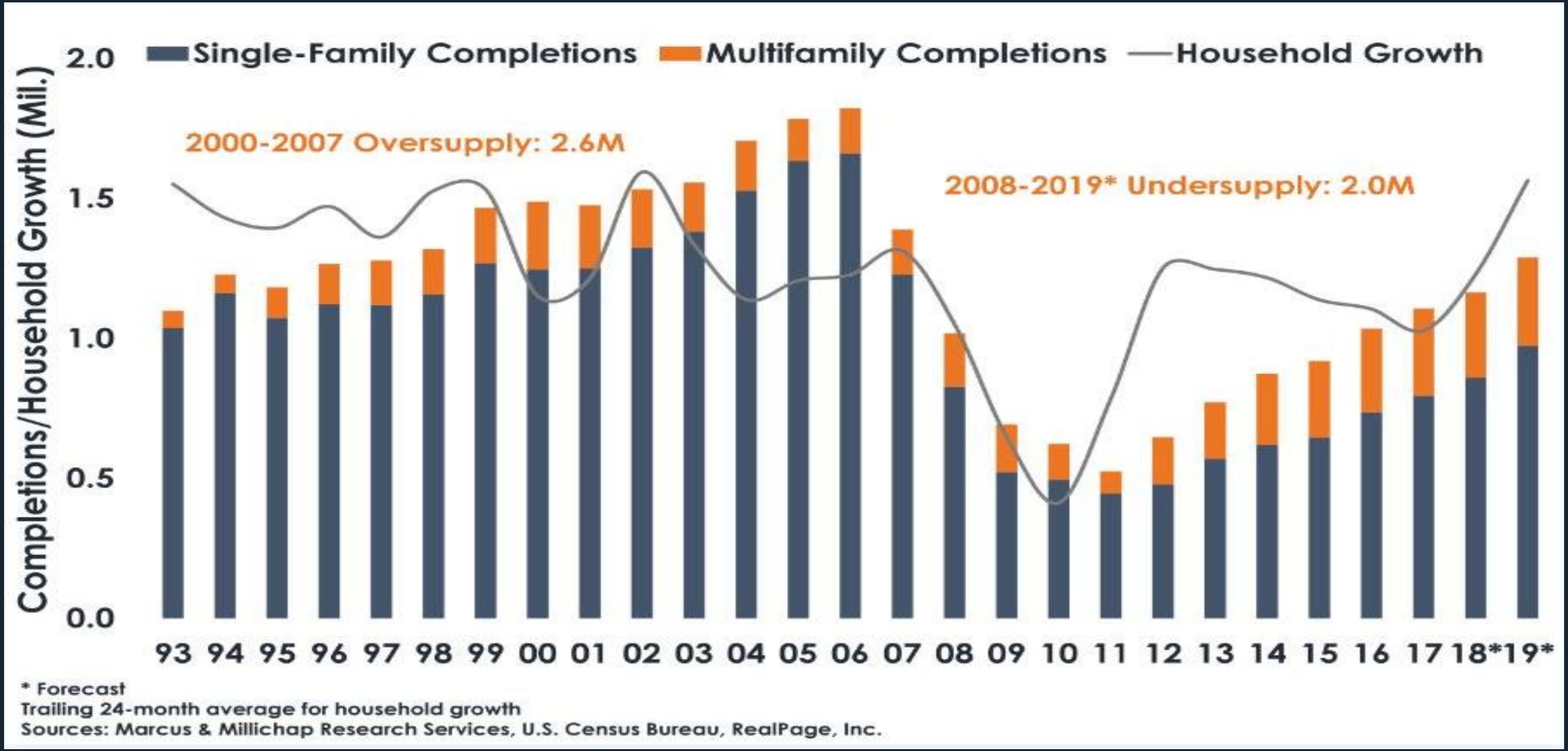
THE STORY OF APARTMENT TRENDS IN 10 DYNAMIC CHARTS

LEARN WHY WORKFORCE HOUSING RENT GROWTH CONTINUES TO BE FAR ABOVE THE 10-YEAR AND 30-YEAR TREND LINES

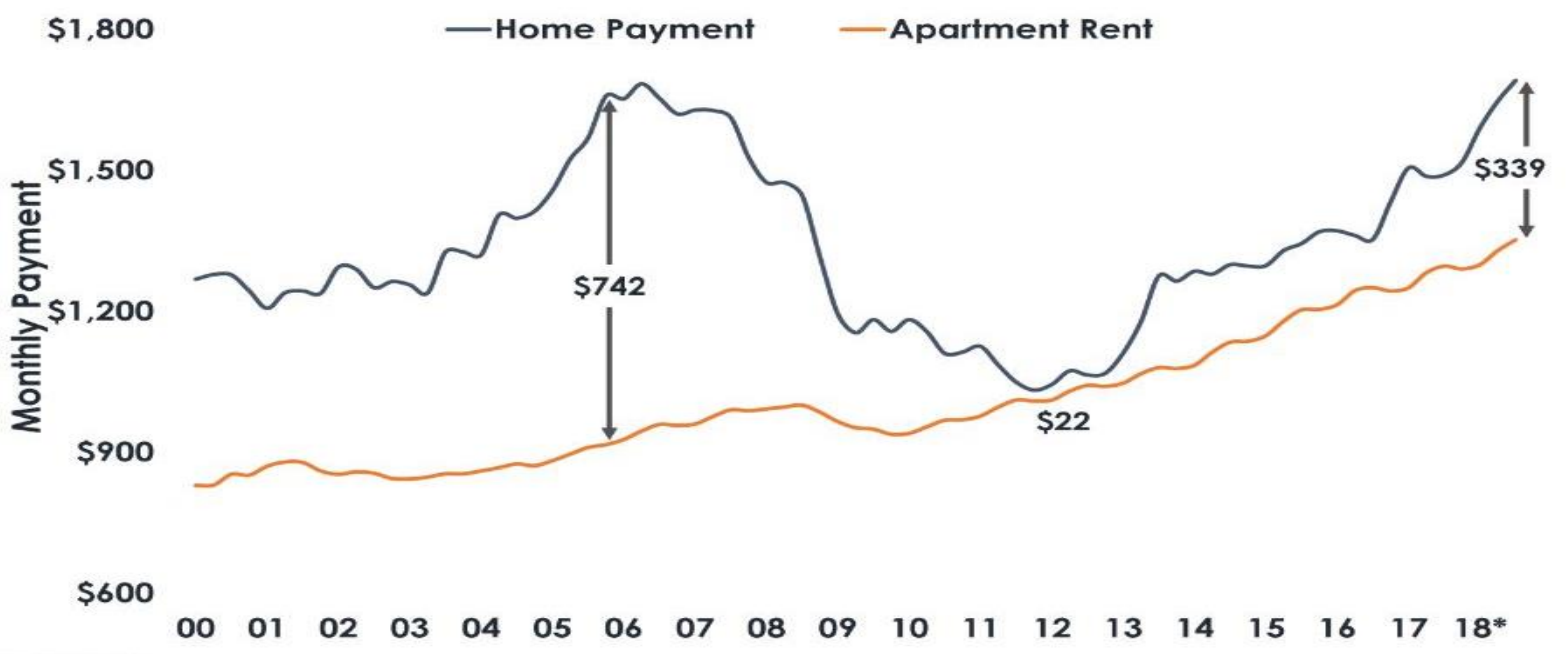
U.S. Apartment Vacancy Stubbornly Low Despite Wave of Construction



Housing Market Provides Solid Economic Support Due to Drop in New Construction

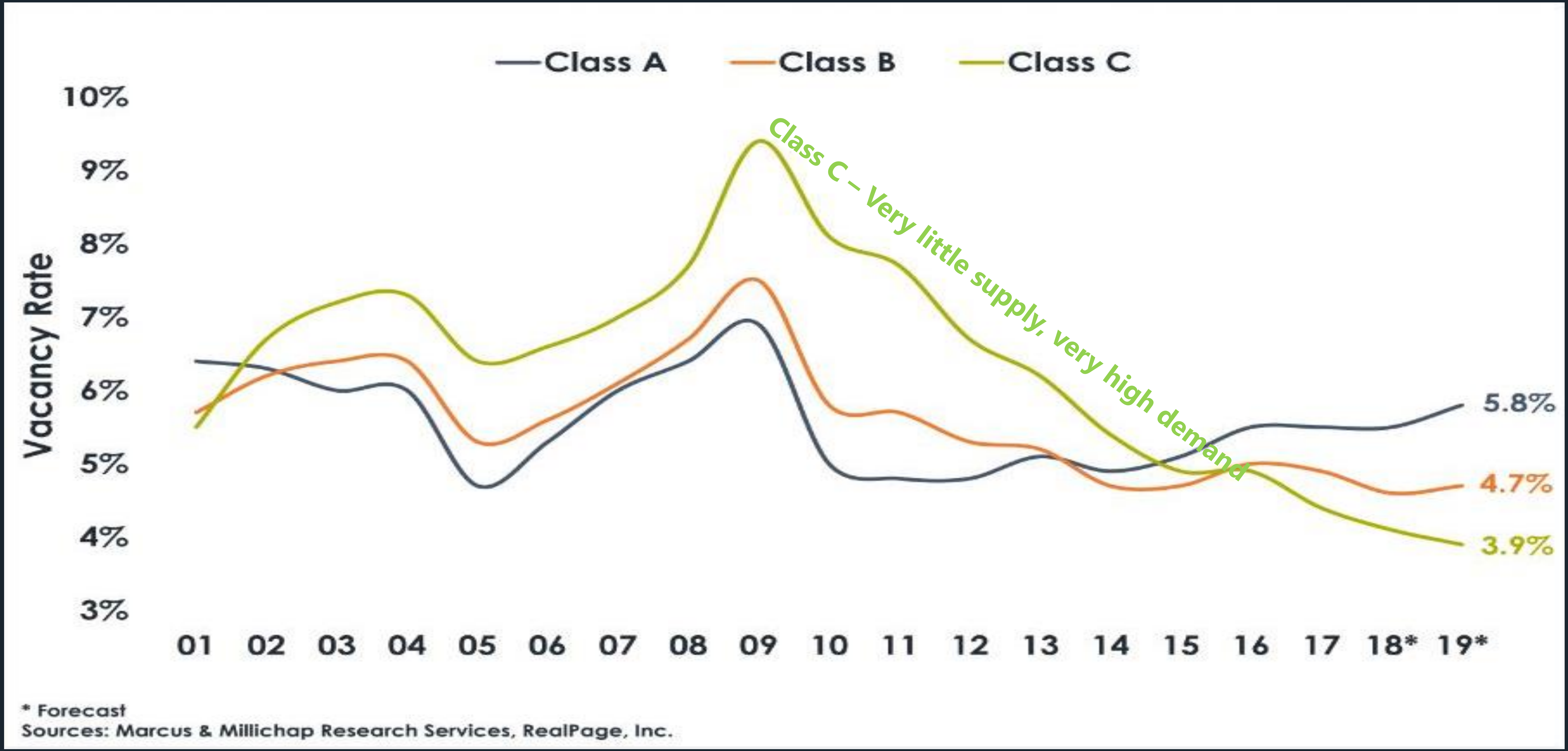


Gap Between Rent and Home Payment Widening – Will Sustain Apartment Demand

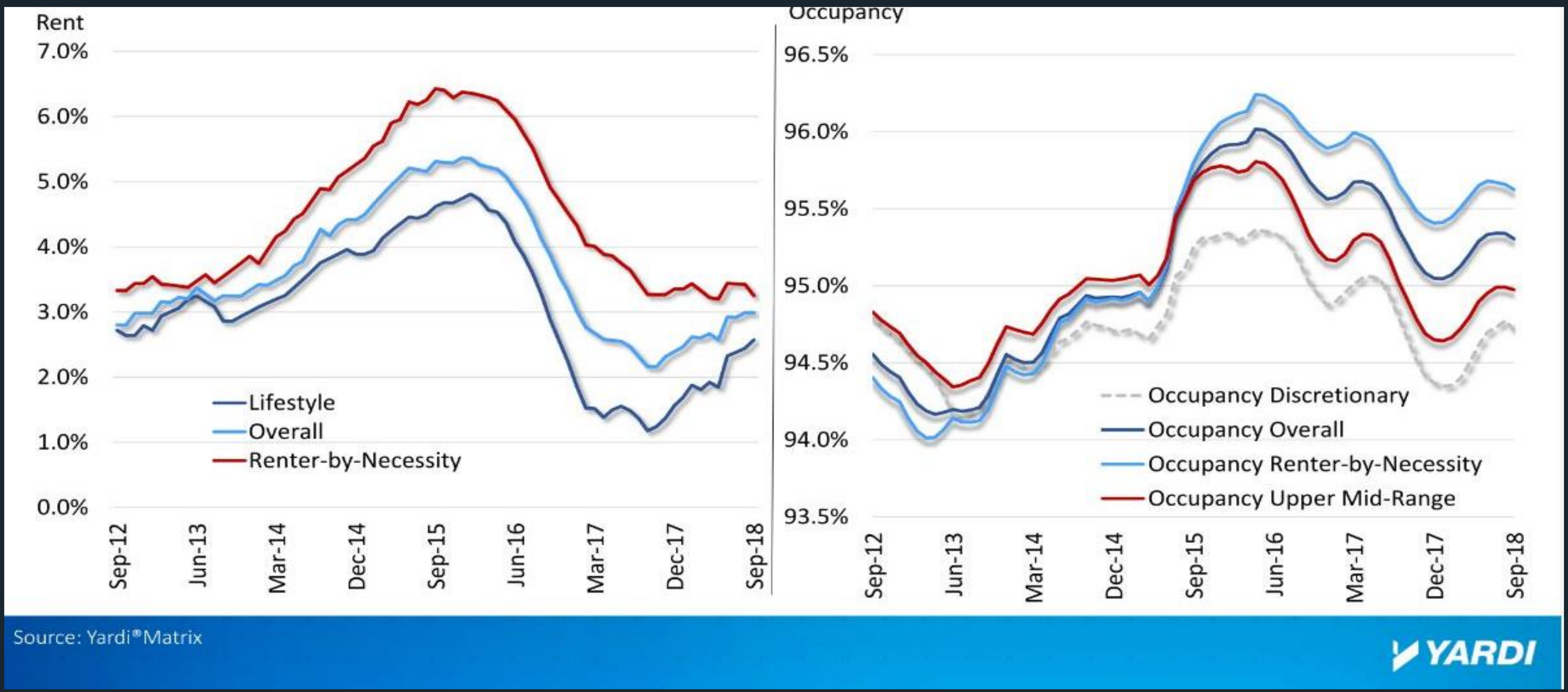


* Through 3Q
Mortgage payments based on quarterly median home price for a 30-year fixed rate mortgage, 90% LTV, taxes, insurance, and PMI
Sources: Marcus & Millichap Research Services, RealPage, Inc., Freddie Mac, National Association of Realtors

U.S. Apartment Vacancy Trends by Class



Rent Growth Has Rebounded While Occupancy Bounces Back



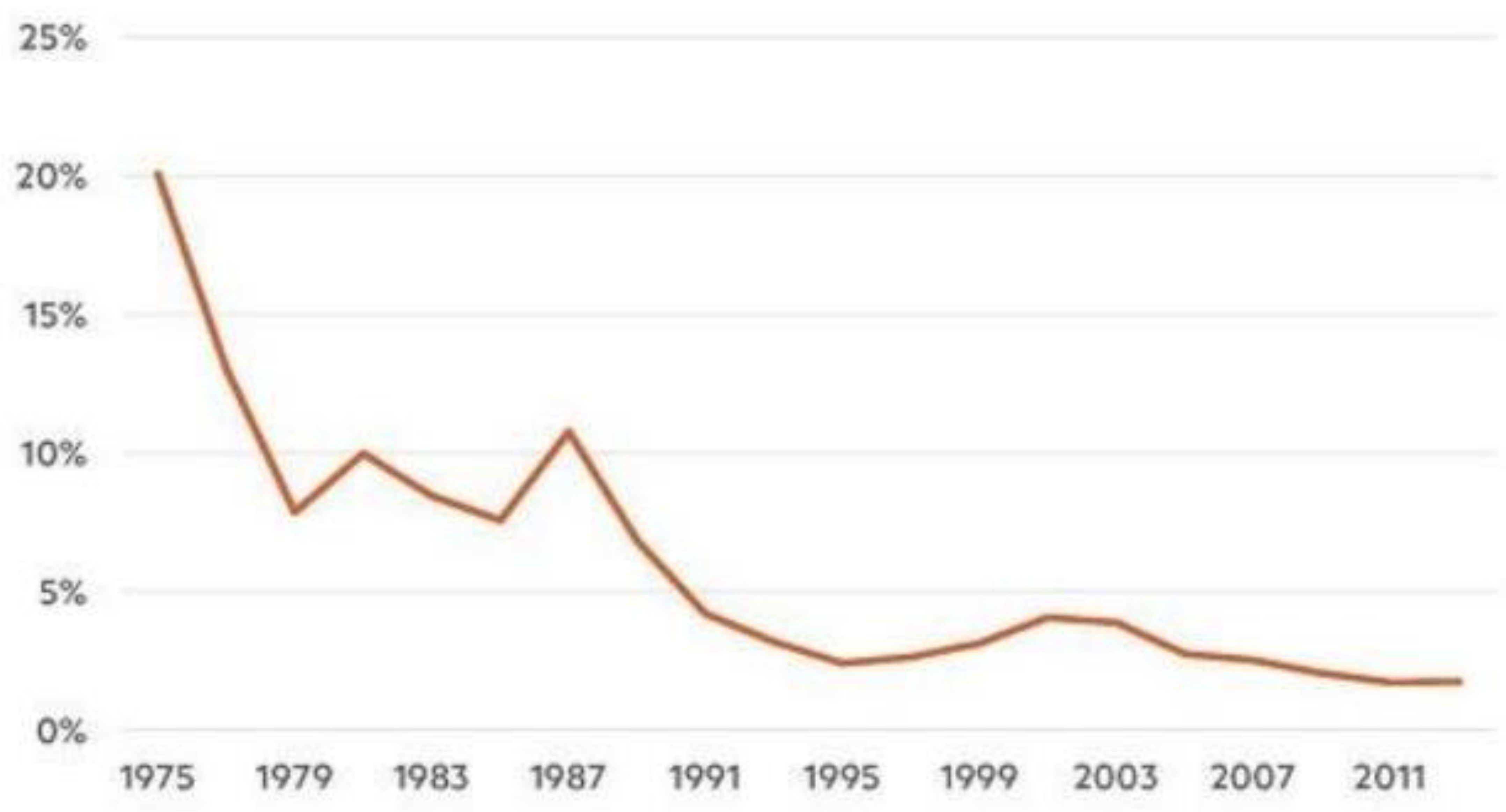
There are Fewer New Apartments Affordable to Median-Income Residents

- The share of all apartments that are affordable to median-income households and were no more than five years old ranged from about 10-20 percent in most of the 1970s and 1980s

- It fell to an average of 3.1 percent in the 1990s and 2000s and has slipped even further to only 1.8 percent in the current decade (data through 2013)

FIGURE 4

New Apartment Share of All Apartments Affordable to Median-Income Households



Source: AHS; NMHC

*Affordable defined as rent no more than 30% of income

Source: National Multifamily Housing Council (NMHC), "Did We Ever Build Apartments for the Middle Market?"; American Housing Survey (AHS)

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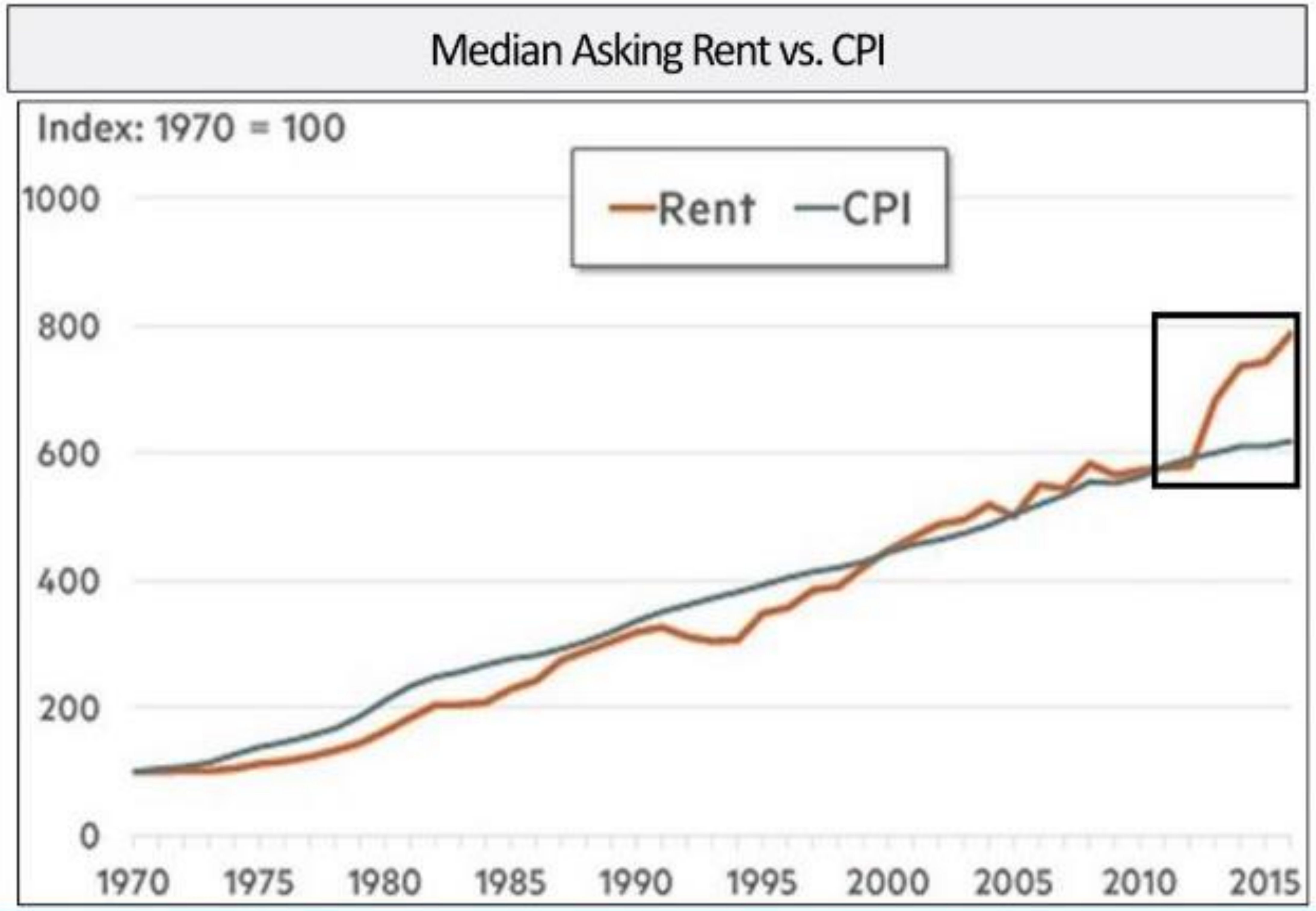
Median Asking Rent Rising Faster Than Inflation

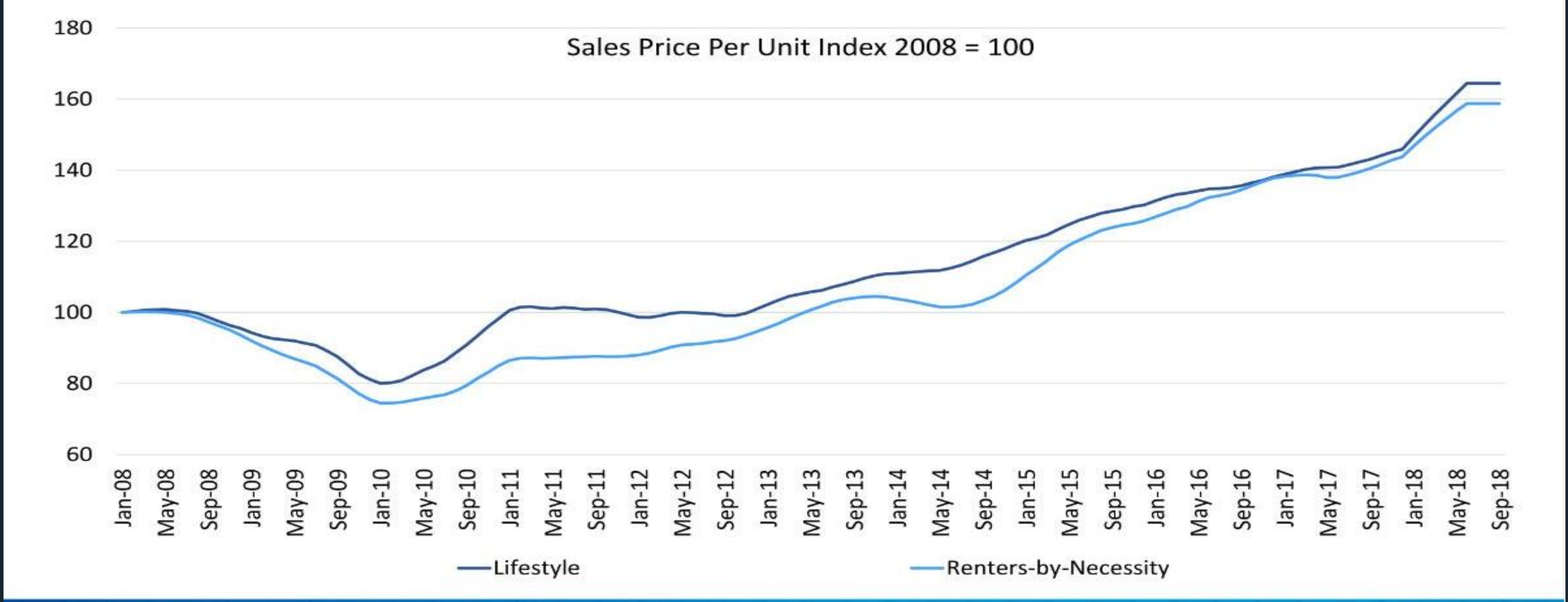
* Between 1970-2012, the periods in which the median rent grew more slowly than overall inflation were balanced by periods in which it grew faster
* Since then, the median asking rent has risen much more rapidly than inflation



Source: National Multifamily Housing Council (NMHC), "Did We Ever Build Apartments for the Middle Market?"; U.S. Census Bureau (BOC); U.S. Bureau of Labor Statistics (BLS)

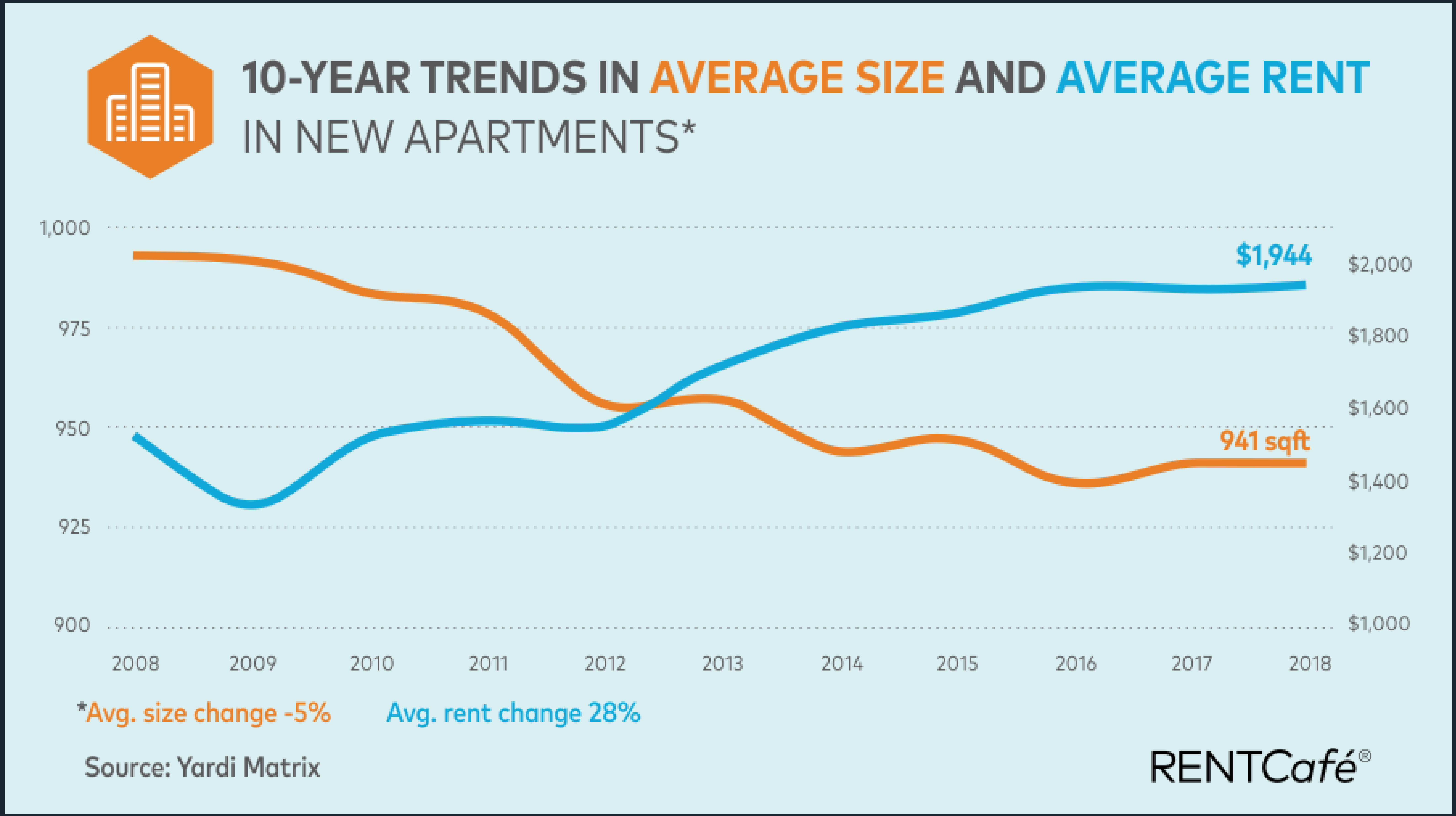
YARDI

National Multifamily Values Keep Rising



Source: Yardi® Matrix

Apartment Trends – average sizes going down



Source: https://www.rentcafe.com/blog/rental-market/real-estate-news/us-average-apartment-size-trends-downward/

MULTIFAMILY TRENDS DRIVING GROWTH IN 2019

THESE TRENDS WILL DRIVE MULTIFAMILY FORWARD IN 2019

SINGLE FAMILY

The 10 Surprising Housing Markets Poised to Rule in 2019

City	Frcstd Median Home Price	Predicted Sales Growth	Predicted Price Growth
1. Lakeland, FL	$161,757	5%	7.4%
2. Grand Rapids, MI	$187,319	4%	8.2%
3. El Paso, TX	$150,000	7.9%	2.5%
4. Chattanooga, TN	$161,595	5.2%	4.3%
5. Phoenix, AZ	$267,318	3.6%	5.6%
6. Bridgeport, CT	$385,790	5%	4%
7. Las Vegas, NV	$277,574	0.9%	7.9%
8. Boise City, ID	$266,586	1.5%	6.9%
9. Miami, FL	$266,586	3.3%	5%
10. Boston, MA	$496,710	3.6%	4.6%

Source: https://www.realtor.com/news/trends/2019-housing-markets-poised-to-take-off/

SINGLE FAMILY

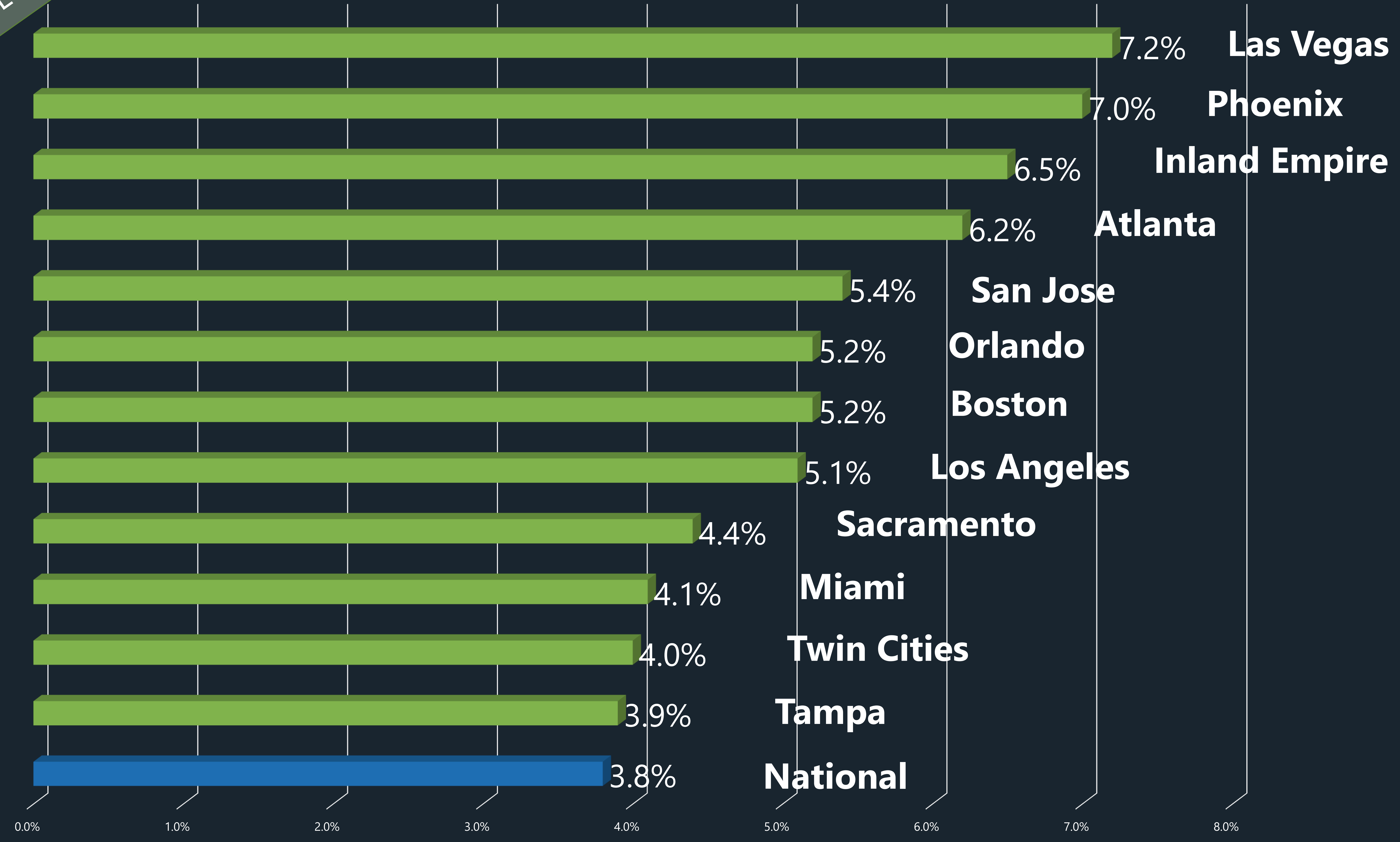
City	Job Growth This Yr.	Job Growth 6 Mo. Ago	Home Prices This year	Home Prices Vs Income
1. Orlando, FL	↑ 4.7%	3.8%	10%	**20%**
2. Raleigh, NC	↓ 3.3%	3.5%	7%	-3%
3. Jacksonville, FL	↓ 3.0%	3.2%	10%	14%
4. Charlotte, NC	↓ 2.6%	2.7%	8%	2%
5. Cleveland, OH	↑ 2.5%	1.9%	5%	-20%
6. Indianapolis, IN	↑ 2.3%	1.8%	8%	-18%
7. Fort Worth, TX	↓ 2.3%	2.8%	9%	9%
8. Philadelphia, PA	↑ 2.3%	2.1%	7%	3%
9. Atlanta, GA	↑ 2.2%	1.9%	11%	-3%
10. Memphis, TN	↑ 2.2%	2.0%	6%	-15%

Forbes

Best Markets For SF RE Investments In 2019

My audience is cash flow investors so expensive cities (rents $1300 or above, low cash flow) were removed from the Forbes list

Source: https://www.forbes.com/sites/ingowinzer/2019/01/07/2019-best-markets-for-real-estate-investments



First, What markets nailed it in 2018 *Class C Asset Class*

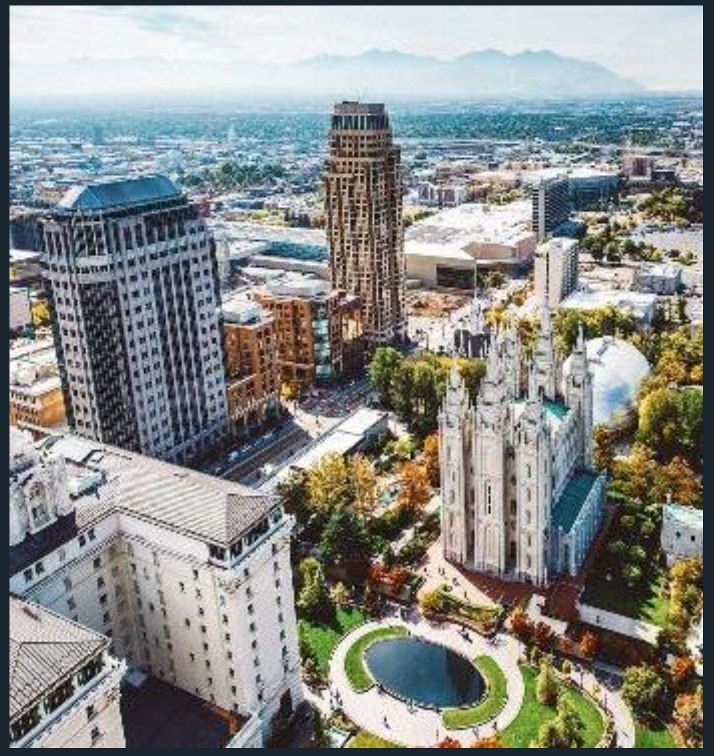
MULTIFAMILY

Best Multifamily Rent Growth Markets 2019 All Classes (with completions & Job growth)

City	YoY Rent Growth 2018	YoY Rent Growth 2019 Forecast	Job Growth 6 Mo. Avg	Incoming Supply %age of stock
Sacramento	↑ 4.4%	6.5%	1.5%	1.1%
Inland Empire	↓ 5.5%	4.5%	3.2%	0.3%
Dallas	↑ 2.4%	4.3%	3.2%	**3.5%**
Orlando	↓ 4.4%	4.0%	4.0%	**3.1%**
Las Vegas	↓ 7.3%	4.0%	3.4%	2.0%
Seattle	↑ 2.9%	4.0%	3.5%	**4.2%**
Los Angeles	↓ 4.2%	4.0%	1.3%	1.7%
Phoenix	↓ 6.5%	3.9%	3.4%	2.7%
Twin Cities	↑ 3.3%	3.6%	1.8%	2.6%
Orange County	↑ 2.2%	3.5%	0.8%	2.3%
Raleigh	↑ 3.0%	3.4%	2.9%	**3.6%**
Denver	↑ 3.3%	3.4%	2.9%	5.4%
Atlanta	↓ 5.3%	3.3%	2.1%	2.0%

Top Markets for Multifamily Development (Opportunity Zones anyone?)


1. Miami, FL


2. Salt Lake City, UT


3. Nashville, TN

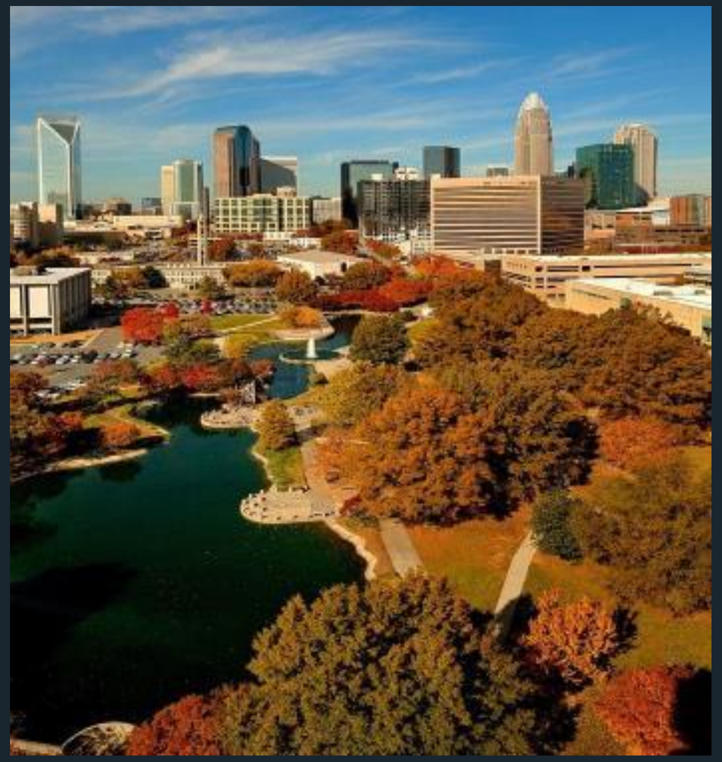

4. Boston, MA


5. Jacksonville, FL


6. Seattle, WA


7. Denver, CO


8. East Bay in SF Bay Area, CA


9. Charlotte, NC


10. Austin, TX

NEAL'S PICKS FOR 2019

UNDERPERFORMING MARKET + BEST MARKET

WHAT ARE THE BEST MARKETS TO INVEST IN 2019, IN NEAL'S OPINION

NEAL'S TIP FOR AN UNDERPERFORMING MARKET

”

An underperforming market I see growing in 2019 is Kansas City, MO. It’s been a top market for new construction and with a 52% YoY growth in new development spend, it means the city is poised for a good year ahead.

Source: https://www.forbes.com/sites/forbesrealestatecouncil/2018/12/10/nine-surprising-real-estate-opportunities-that-will-grow-in-2019/

NEAL'S TIP FOR THE BEST MARKET IN 2019

I've been talking about it for several years now, and it's clear that this market has not peaked yet. For the 2^{nd} year in a row, my pick for the #1 market in the U.S. for Single Family and Multifamily investing is Boise, Idaho.

The top reasons why I picked Boise:

1. Terrific inward net migration from other states
2. High livability (ranked on many Best places to live lists
3. Business friendly
4. Great job growth, low unemployment rate – 2.2%
5. Low crime – 8^{th} safest city in the world
6. #1 SF projected price growth in the U.S. by Ingo Winzer (LMM)
7. Highly regarded schools (top in state)
8. Beautiful outdoors
9. Low Taxes

Source: https://www.forbes.com/sites/forbesrealestatecouncil/2018/12/10/nine-surprising-real-estate-opportunities-that-will-grow-in-2019/

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Thank You for Joining Me!
Questions?

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