

The Real Estate Roundtable Sentiment Index

Second Quarter 2019



The Real Estate Roundtable



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The Real Estate Roundtable is pleased to announce the results from the Q2-2019 Real Estate Roundtable Sentiment Survey. The quarterly survey is the commercial real estate industry's most comprehensive measure of senior executives' confidence and expectations about the commercial real estate market environment. Conducted by FPL Advisory Group on behalf of The Roundtable, it measures the views of CEOs, presidents, and other top commercial real estate industry executives regarding current conditions and the future outlook on three topics: (1) overall real estate conditions, (2) access to capital markets, and (3) real estate asset pricing.

Topline Findings

- The Real Estate Roundtable Q2 2019 Sentiment Index registered 51 – a six point increase from the previous quarter. Survey participants expressed increased optimism that real estate markets will remain healthy as positive economic conditions persist. Respondents are encouraged by the resilience of the market, but have questions about the length of the overall economic cycle.
- Many respondents expressed caution around the late cycle timing, but they also pointed to a high level of discipline on behalf of equity and debt providers. Lending standards have remained rigid and underwriting of new deals has been thoughtfully executed.
- Respondents suggested that asset values for certain property types may be approaching peak. The perceived gap between buyer and seller expectations supports this view.
- Debt and equity are viewed as widely available for quality investments. Despite plenty of capital flowing into the market, respondents pointed to the discipline exhibited by lenders as a factor contributing to their market confidence.

¹ The Real Estate Roundtable Sentiment Index is measured on a scale of 1–100. It is the average of The Real Estate Roundtable Future Index and The Real Estate Roundtable Current Index. To register an Index of 100, all respondents would have to answer that they believe conditions are “much better” today than one year ago and will be “much better” one year from now.

General Conditions

The Real Estate Roundtable Q2 2019 Sentiment Index registered 51 – a six point increase from the previous quarter. Survey participants expressed increased optimism that real estate markets will remain healthy as positive economic conditions persist. Respondents are encouraged by the resilience of the market, but have questions about the length of the overall economic cycle.

“Economic numbers continue to be strong, especially employment figures. There are not a lot of obvious excesses being built up in the economy. If we can avoid poor policy decisions, there is no reason growth can’t continue for the next year plus.”

“It has felt like more of the same this year, with no major market changes in sight. Our focus will continue to be on harvesting gains driven by the past several years of growth and raising fresh capital for future long term investments.”

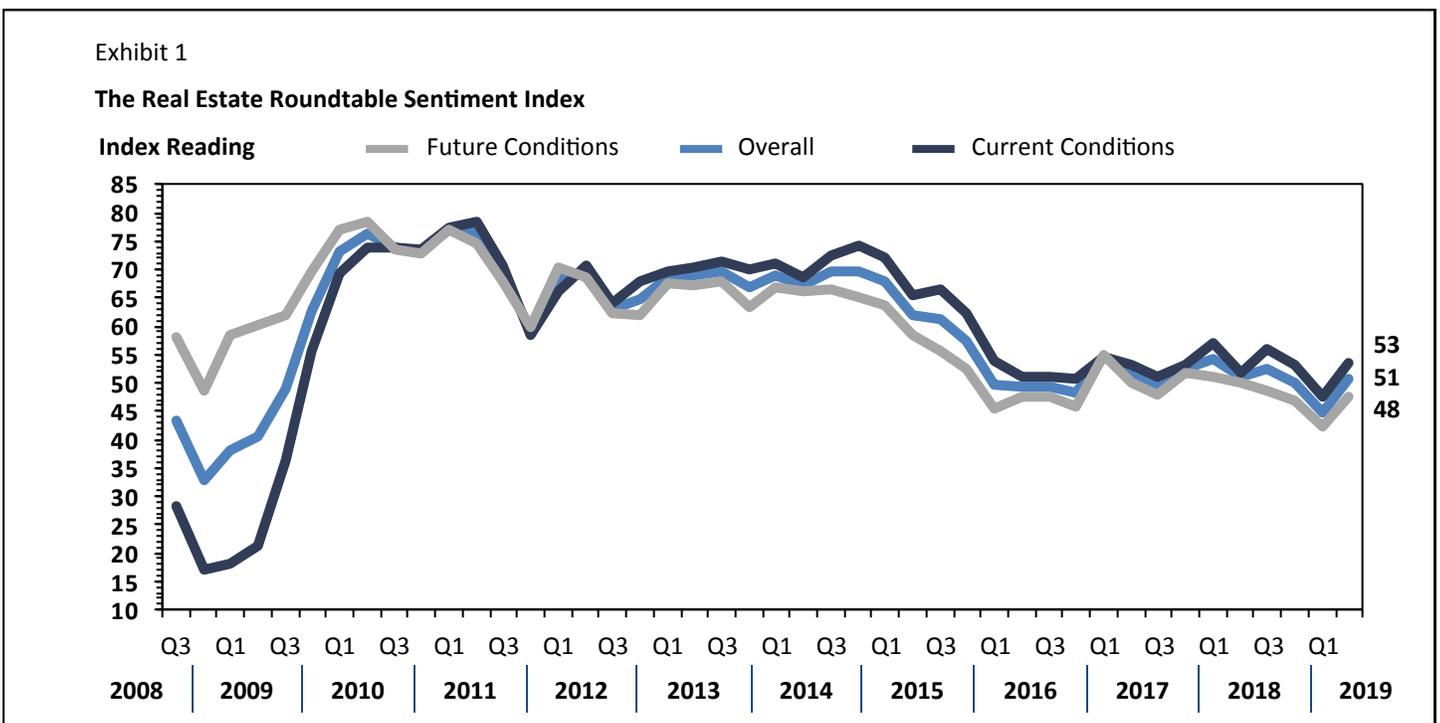
“I think in the last quarter there has been a change in expectations on the shape of the yield curve. Previously expectations were for steepening in the yield curve, now not so much. This has effected all risk assets (stocks) and also real estate. So currently things feel better versus a quarter ago because of this general change in sentiment.”

“If you are a core or core-plus investor in today’s market, you are currently underwriting to hold through a recession. If you’re an opportunity fund trying to buy right now, you’re worried about exiting your investments.”

“Some investors feel they are totally allocated to traditional property types, but are very interested in demographically driven products like self-storage, student housing, and last-mile logistics.”

“There is greater and greater differentiation in demand from investors. Each demand is unique and capital is being allocated in a very calculated way.”

“We think investors are having problems putting out money. The buyer/seller gap is very large in the market today.”



General Conditions

(continued)

Many respondents expressed caution around the late cycle timing, but they also pointed to a high level of discipline on behalf of equity and debt providers. Lending standards have remained rigid and underwriting of new deals has been thoughtfully executed.

“A ‘wait and see’ attitude would characterize the market today with an expectation of an eventual market slowdown.”

“We are concerned and careful, but optimistic that our present economic circumstance will persist.”

“We look around and wonder, where did this increased market discipline come from in this cycle? Is it that we’ve all learned from the last down-turn? Is it that lenders and capital sources are more conservative? We don’t know the answer, but it’s fascinating to consider.”

“If an investor isn’t looking at a long-term core investment, then they’re asking the question, ‘who can truly add value to my investments?’ This means they’re examining the operating capability of the company they may invest with. This hasn’t always happened and is just one of the ways capital is being smarter in this late cycle moment.”

“The specter of interest rates rising is over, so many folks are looking at the market and wondering where we are.”

“Industrial real estate is a great investment, but also one which doesn’t take a great deal of imagination to understand. The markets have been in equilibrium for the last three years; supply and demand have been keeping pace and growing evenly. With that said, we believe e-commerce is going to further change this dynamic.”

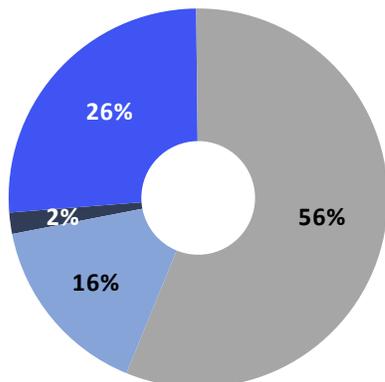
Exhibit 2

Perspectives on Real Estate Market Conditions

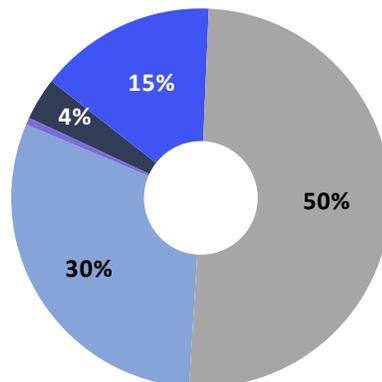
% of respondents

■ Much worse ■ Somewhat worse ■ About the same ■ Somewhat better ■ Much better

Today vs. One Year Ago



One Year From Now vs. Today



Asset Values

Respondents suggested that asset values for certain property types may be approaching peak. The perceived gap between buyer and seller expectations supports this view.

“The pricing for core assets is staying tight, but the definition of a core investment is tightening. If you’re not within the ‘core-bullseye’, pricing may be coming down slightly.”

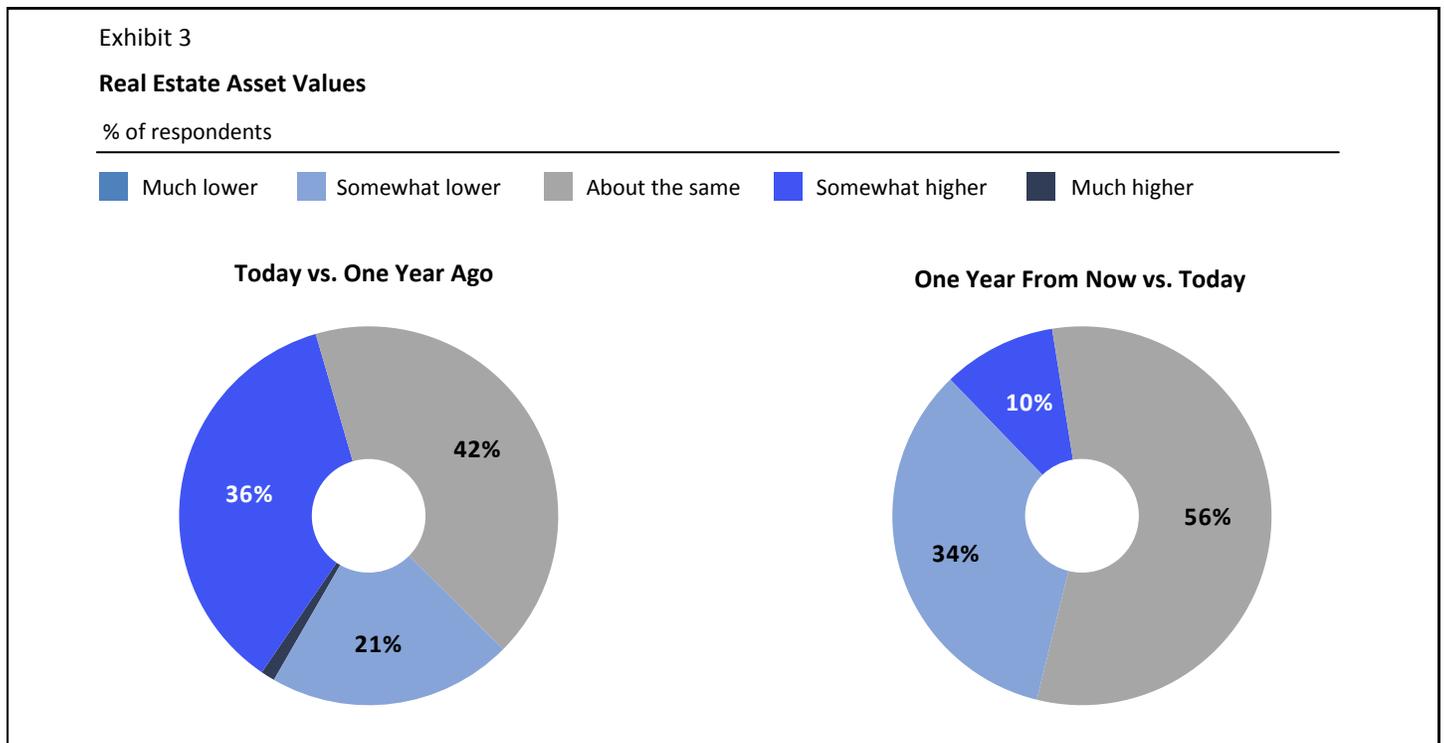
“For properties at Main and Main, we’re seeing record prices.”

“This may be controversial, but I think we still have room to grow in terms of asset pricing. You have a situation where the cost to build new supply is prohibitive and rents are being pushed up as a result of constrained supply. This may not hold true for all retail property, but most other property types are seeing this dynamic play out.”

“I think we’ve blown through the previous peak in every property type. Even retail, when it’s been rehabilitated in the media, will reveal an increasing pricing trend.”

“How can you justify buying an office property in today’s market? The price is historically high and the potential tenant improvements will eat through your return. We don’t see the value at this point in the market.”

“I think asset pricing will continue to increase. As long as our current economic health remains, I see no plateau in sight.”



Capital Markets

Debt and equity are viewed as widely available for quality investments. Despite plenty of capital flowing into the market, respondents pointed to the discipline exhibited by lenders as a factor contributing to their market confidence.

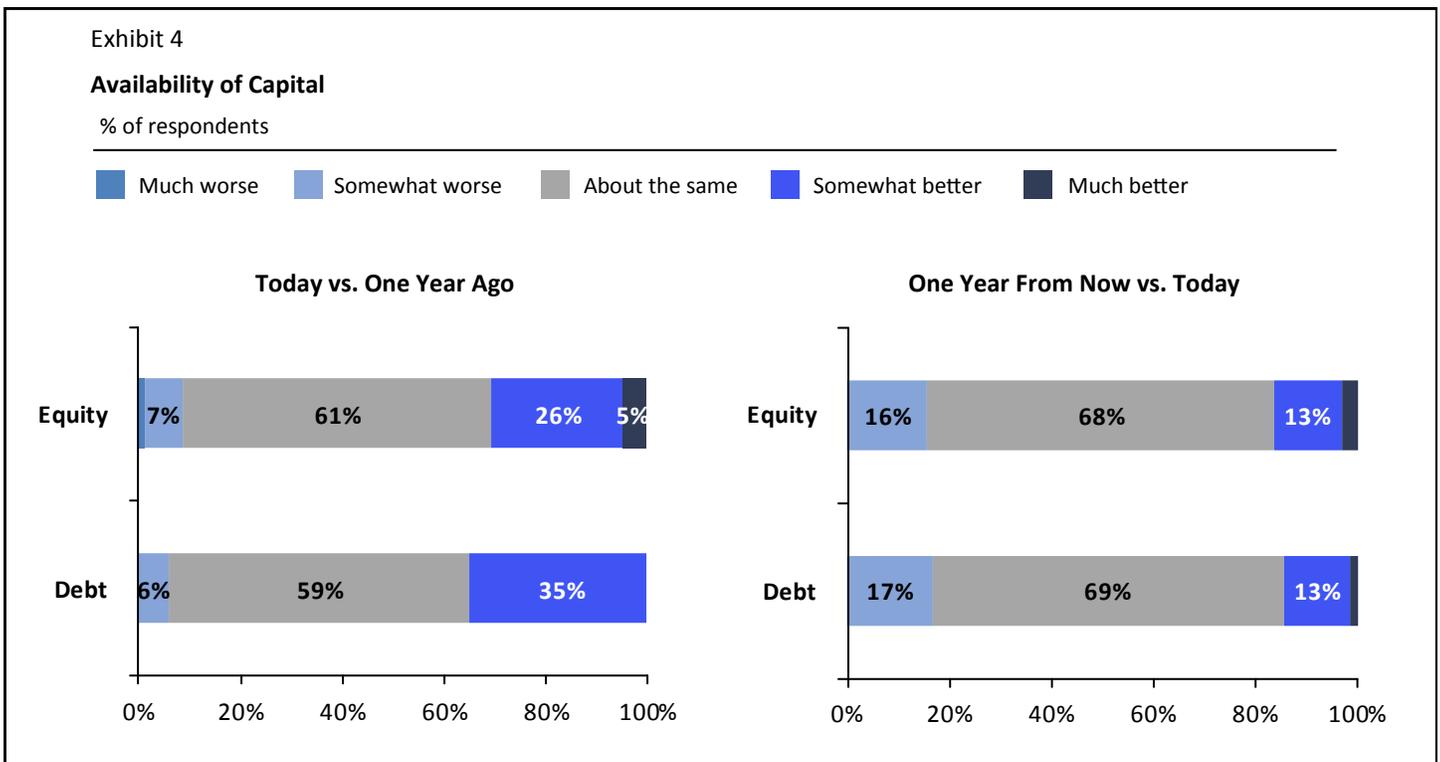
“There is as much mezzanine debt out there as you can ask for. Traditional equity players are creating mezzanine products as they view them to be safer investments at this time in the market.”

“The debt markets have never been more open. Despite the competition, there’s still great discipline among the lenders.”

“While it’s known that debt is plentiful today, what isn’t being talked about is the fact that some of the larger lenders are getting a little squeamish. We’ve seen hesitation recently with some of the large groups when looking at deals they would have rubber stamped last quarter.”

“The commercial banks are aggressively entering new markets. We’re seeing term sheets in unexpected cities for some of the groups, and totally new products from others. It’s a sign of the times when the commercial banks are entering tertiary geographies and product lines.”

“Let me be really surprising: ‘there’s plenty of debt and equity capital available.’ In a market with disciplined lenders and equity investors seeking recession-proof investments, you have a stable environment.”



Participants

(Please note that this is only a partial list. Not all survey participants elected to be listed.)

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