The Real Estate Roundtable Sentiment Index

First Quarter 2017

The Real Estate Roundtable

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The Real Estate Roundtable is pleased to announce the results from the Q1-2017 Real Estate Roundtable Sentiment Survey. The quarterly survey is the commercial real estate industry's most comprehensive measure of senior executives' confidence in the real estate 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 Q1 Sentiment Index came in at 55, a seven point uptick from pre-election Q4. Reacting to the new administration in Washington, many are optimistic about potential opportunities and the US economy this year. Mitigating this optimism is concern around potential reform to the tax laws.
- While optimism has been the most common reaction to the new Administration, many responders are employing a 'wait and see' approach. Most expect changes in the real estate industry as a result of the policies of the new Administration.
- Despite previous concerns about asset values nearing peak pricing, many feel that pricing has stabilized. Industrial properties are perceived as well priced while many are reporting a lessening of values for multifamily properties in gateway cities.
- Foreign capital continues to seek real estate investment opportunities in the US market. As a result, access to equity capital is plentiful. Construction lending remains challenging to secure, but for high quality, stabilized assets, financing is available with competitive terms.

[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 Q1 Sentiment Index came in at 55, a seven point uptick from pre-election Q4. Reacting to the new administration in Washington, many are optimistic about potential opportunities and the US economy this year. Mitigating this optimism is concern around potential reform to the tax laws.

“Trump has been a shot in the arm; we see wide-spread optimism. Not withstanding the real estate-specific tax challenges, I’m very encouraged about the market and this coming year. The next couple of months will be key. There is a sense of urgency from the new administration. We’ll all be watching to see how the urgency translates into policy, and how well received that policy is.”

“I think certainly with any transition, there’s a fair amount of uncertainty, which creates volatility in capital markets and businesses in general. Generally with the business environment, I’d say there’s a good degree of hopeful optimism, at least to the extent that activities in Washington can influence that kind of thing.”

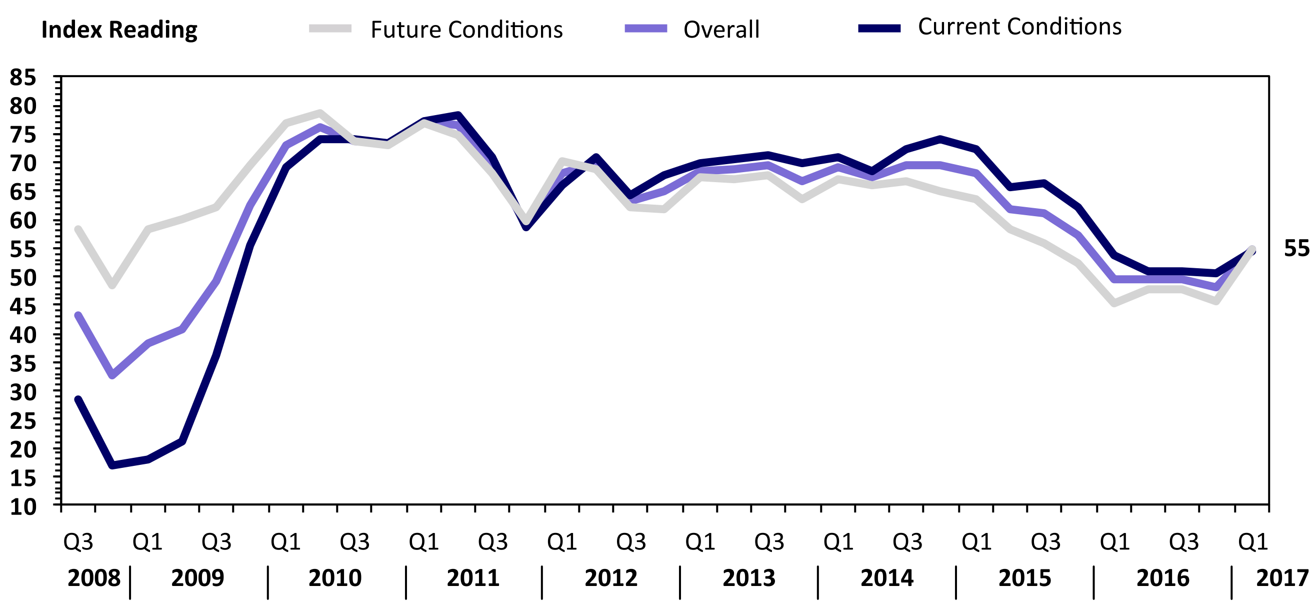
“The market is still very favorable. It’s more favorable than before the Trump election when reacceleration of growth would have been 5%. I’d say now it feels more like 50% reacceleration. Tax reform is possibly on the horizon this year; we have to be vigilant about protecting business.”

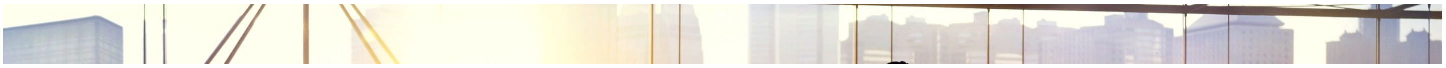
“Going forward, inflation and growth together could be good as long as we don’t see too many external influences on our economy. It’s been fascinating: you change people’s perceptions of where we are in the current real estate cycle and it becomes a self-fulfilling prophecy. We may very well see a sustained major positive change.”

“We think it’s getting choppier out there. It’s harder to find financing as the banks are seeing the effect of regulatory oversight; they have increased underwriting conditions to comply with new regulations. We’ve been net sellers in this market.”

Exhibit 1

The Real Estate Roundtable Sentiment Index





General Conditions

(continued)

While optimism has been the most common reaction to the new Administration, many responders are employing a 'wait and see' approach. Most expect changes in the real estate industry as a result of the policies of the new Administration.

"We are a knee-jerk industry, so we're trying to reserve judgment until the new administration in Washington settles in. I'm hearing a great deal of optimistic feeling out there. We think it's challenging to chart a strategic course in an environment where you have such change happening. To borrow from the thoughts of a well-known columnist, we should all judge the new administration by what it does, not what it might do."

"We recently polled our company and found that 65% of our employee base felt we were on the way up while another 25% thought we were flat, economically speaking. I was surprised by this finding, but then, I suppose I shouldn't have been. The trend lines up with how the street has been reacting, with hope in this new perceived atmosphere. They like the change they've seen and they're looking forward optimistically to what happens this year around de-regulation."

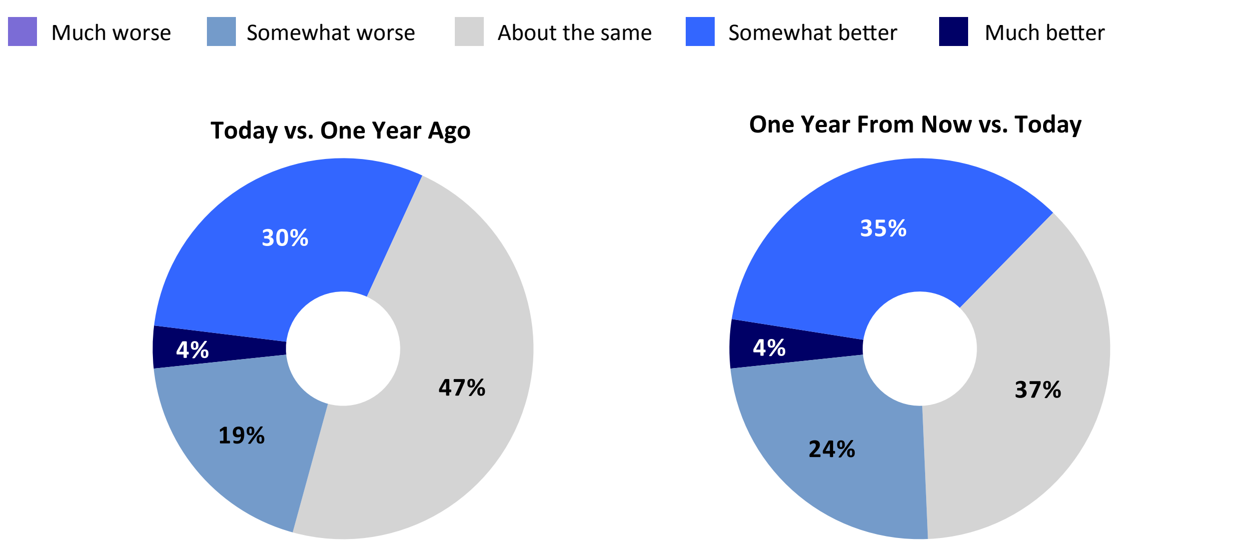
"The economy is in an interesting place. We seem to have strong underlying fundamentals, but interest rates have increased. I suppose we view the general conditions as a mixed bag."

"I'm feeling really positive. Pre-election there was uncertainty about what the next administration would look like, and now we know. This is likely a pro-business administration and the market is reacting favorably. If you are priced appropriately and within an urban market, you're well positioned. "

Exhibit 2

Perspectives on Real Estate Market Conditions

% of respondents



Asset Values

Despite previous concerns about asset values nearing peak pricing, many feel that pricing has stabilized. Industrial properties are perceived as well priced while many are reporting a lessening of values for multifamily properties in gateway cities.

“They’re stable today, but who’s to say where they go later this year. There are headwinds in some markets, but that’s to be expected and it’s healthy.”

“We think asset prices are stable.”

“We remain very bullish in Gateway cities. In Boston for example, we like the long-term opportunities that exist. We’re seeing capital from overseas enter the US market in a continuous way, so you have buyers for high quality assets.”

“Multifamily rents seem to be softening as new supply comes on in some markets. Industrial however seems to be maintaining investor interest, and is still priced within reason. From a geographic standpoint, it’s going to be interesting to see what price finally drives investors out of the popular gateway cities. How much does it take for San Francisco to become too expensive? The consequence is secondary markets pick up the slack and outperform.”

“Hotel REITs are up and holding firm. This is always a benchmark for us. Foreign capital coming into the US is keeping pricing high.”

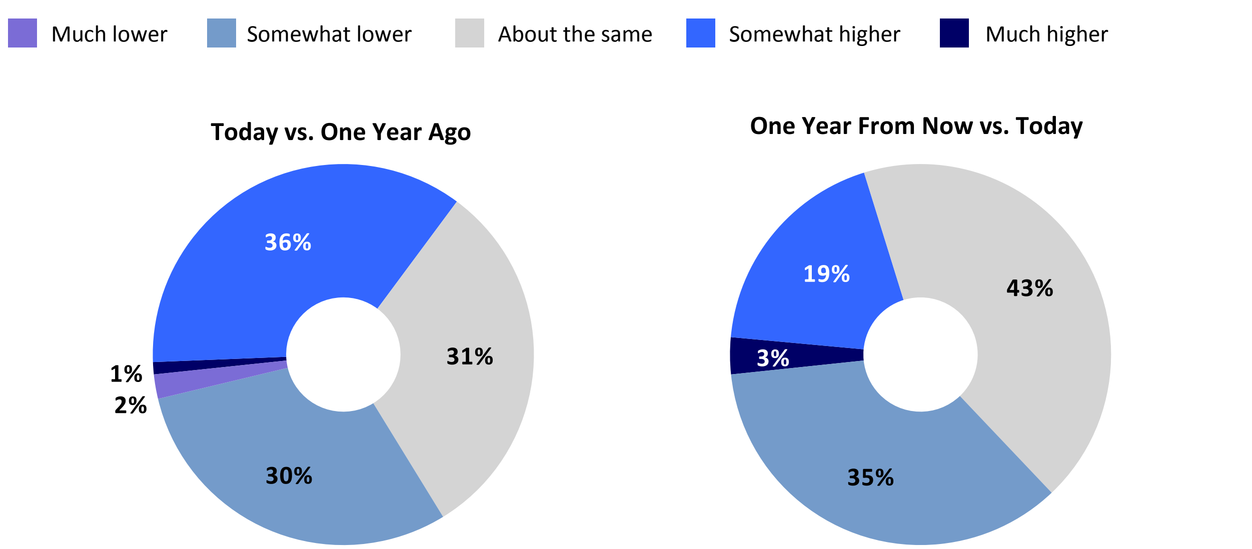
“I’m worried about a protectionist agenda impacting foreign capital inflows.”

“Asset pricing varies from market to market. We’ve been pleasantly surprised with the markets we’ve committed to.”

Exhibit 3

Real Estate Asset Values

% of respondents



Capital Markets

Foreign capital continues to seek real estate investment opportunities in the US market. As a result, access to equity capital is plentiful. Construction lending remains challenging to secure, but for high quality, stabilized assets, financing is available with competitive terms.

"Access to equity capital is strong. We're seeing an increasing level of activity from investors outside the US for US-based assets. Honestly, I'm hoping for some relaxation of capital availability."

"For non-core assets, you have to do a little bit extra to obtain financing. With that said, if you're looking to finance a core asset in a gateway market, you're going to find multiple viable options."

"Foreign capital is coming to the US because of the stable economic environment. Capital does not like uncertainty. If we somehow enter a phase of foreign capital perceiving the US as less stable than another country, we'll feel the impact immediately."

"It's going to be interesting to see if a muscular, anti-trade and anti-immigration regime affects the flow of foreign capital."

"It's no surprise that the hardest part of the capital stack to source is construction debt. Any number of banks have started to limit their exposure to real estate construction finance. For less leverage, the debt is more expensive and the ancillary terms are harder."

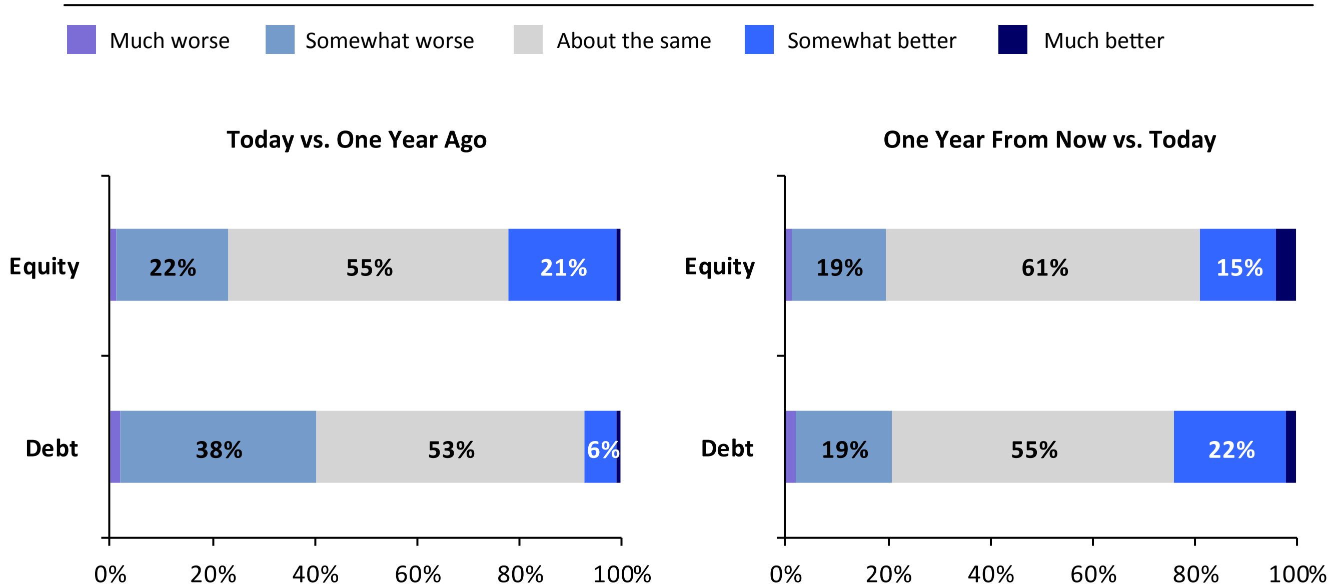
"It's a bifurcated market. Banks are under pressure to have low leverage loans and major markets feature as the largest percentage of their portfolios. Bank and insurance money is still easy if your asset meets the core criteria. If your asset is at all complicated, you're dealing with the shadow banking market."

"There doesn't seem to be a 'B' class of assets. You go from grade 'A' assets, which are easy to finance, to 'B' and 'C' which are lumped together in the hard-to-finance category."

Exhibit 4

Availability of Capital

% of respondents



Participants

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

Allianz Real Estate of America
Christoph Donner

Armada LLC
Bruce T. Lehman

Avison Young
Mark E. Rose

Avison Young
Earl E. Webb

Beekman Advisors, LLC
John Cibinic

Bob Ross Realty
Marc Ross

BOMA -Building Owners & Managers Association Intl.
Henry H. Chamberlain

Callahan Capital Properties
Timothy H. Callahan

Capstone Enterprises
Douglas M. Pasquale

Castle Hill Investors
Robert M. Stern

CBRE
Mike Lafitte

Clifford Chance, LLP
Alan L. Gosule

Crow Holdings
Anne L. Raymond

CSM Corporation
Gary Holmes

Cushman & Wakefield, Commerce
Alison Beddard

Cushman & Wakefield, Inc.
John C. Cushman, III

Douglas Emmett, Inc.
Dan A. Emmett

Dune Real Estate Partners LP
Daniel M. Neidich

EastGroup Properties, Inc.
Marshall Loeb

EDENS
Jodie W. McLean

Empire State Realty Trust
Anthony E. Malkin

FGC Advisors, L.L.C.
Frank G. Creamer, Jr.

First Centrum, LLC
Mark L. Weshinskey

Forsgate Industrial Partners
Alex Klatskin

Gazit Group USA Inc.
Chaim Katzman

GID
Robert E. DeWitt

Goodwin Procter LLP
Gil Menna

Green Courte Partners, LLC
Randall K. Rowe

Greenberg Traurig, LLP
Robert J. Ivanhoe

Host Hotels & Resorts, Inc.
W. Edward Walter

Hutchison Advisors, Inc.
Thomas J. Hutchison, III

Iron Point Partners, LLC
Tom Lynch

Iron Tree Capital
Scott J. Arnold

Irvine Company
Richard I. Gilchrist

iStar Inc.
Jay Sugarman

Jack Resnick & Sons
Burton P. Resnick

Johnson Capital Group, Inc.
Guy K. Johnson

Johnson Development Associates, Inc./Johnson Management, LLC
Geordy Johnson

KHP Capital Partners
Michael Depatie

Kimco Realty Corporation
Conor Flynn

Kohlberg Kravis Roberts & Co.
Ralph Rosenberg

LaSalle Investment Management, Inc.
Jeff Jacobson

Liberty Property Trust
William P. Hankowsky

Lowe Enterprises Investors, LLC
Bleecker P. Seaman, III

Lowe Enterprises, Inc.
Robert J. Lowe

Macerich
Edward C. Coppola

Mack-Cali Realty Corporation
Mitchell Rudin

McCarthy Cook & Co.
Brian M. Harnetiaux

MetLife Real Estate Investors
Melissa Reagen

Mid-America Apartment Communities, Inc.
Eric (H. Eric) Bolton, Jr.

MidCap Financial LLC
Kevin J. McMeen

Miller Global Properties LLC
James H. Miller

Moran & Company
Thomas F. Moran

National Association of Realtors®
Steve Brown

National Council of Real Estate Investment Fiducia
Blake Eagle

Northwood Investors
John Z. Kukral

Paramount Group, Inc.
Albert P. Behler

Penzance
Victor Tolkan

Proskauer Rose LLP
Peter M. Fass

Prudential Mortgage Capital
David Durning

RD Merrill Company
William D. Pettit, Jr.

RE Partners International LLC
Jerry L. Starkey

Realterm
Edward Pitoniak

Rockefeller Group International/Proskauer Rose
Kevin R. Hackett

Ryan Companies US, Inc.
Michael R. McElroy

S. Michael Giliberto & Co., Inc.
Michael (S. Michael) Giliberto

SARES/REGIS Group
John S. Hagestad

Shorenstein Properties LLC
Glenn A. Shannon

SL Green Realty Corp.
Stephen L. Green

Square Mile Capital Management LLC
Jeffrey B. Citrin

Starwood Retail Partners, LLC
Scott A. Wolstein

TD Bank
Gregg Gerken

Teacher Retirement System of Texas
Eric Lang

Thackery Partners
Anthony Dona

The Brookdale Group
Charles L. (Chip) Davidson, III

The Pauls Corporation
William B. Pauls

The Pyramid Companies
Stephen J. Congel

The Swig Company
Tomas Schoenberg

TMG Partners
Michael A. Covarrubias

Tufts University - Department of Economics
Jeffery E. Zabel

University of Connecticut
John P. Harding

USAA Real Estate Company
Will McIntosh

USAA Real Estate Company
James Hime

USC-Lusk Center for Real Estate
Stan Ross

Virginia Retirement System
Walker Noland

Walton Street Capital
Neil G. Bluhm

Watson Land Company
Bruce A. Choate

Wells Fargo
Mark Myers

Wells Real Estate Funds
Leo F. Wells, III

WinnCompanies
Gilbert Winn

Stephen R. Blank

David L. Ferrero

Contact

Please direct all inquiries regarding this study to:

Mr. Travis Kononen
Managing Director
Ferguson Partners Ltd.
505 Montgomery Street
11th Floor
San Francisco, CA 94111
Phone: (415) 874-3160
E-mail: tkononen@fergusonpartners.com