The Real Estate Roundtable Sentiment Index

Second Quarter 2017
The Real Estate Roundtable is pleased to announce the results from the Q2-2017 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 Q2 index came in at 52, a three point drop from Q1; many participants suggested they view market fundamentals as stable, despite potentially destabilizing factors, and predicted a continued period of slow but steady growth.

- With the new administration in Washington encountering challenges implementing their policies, there is not the same level of economic optimism as was expressed in the Q1 report. However, participants were nearly unanimous in their belief that the current real estate cycle has room left to run.

- In certain markets, asset pricing has reached near equilibrium. Retail stands out as the most challenging property type to price, followed by multifamily, which is seen to be near peak pricing.

- Capital is plentiful for the best deals. Equity and debt sources are employing greater levels of discipline for riskier investments. In what many feel is a healthy market environment, riskier deals are more expensive and may require multiple sources of capital.

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 Q2 index came in at 52, a three point drop from Q1; many participants suggested they view market fundamentals as stable, despite potentially destabilizing factors, and predicted a continued period of slow but steady growth.

“Real estate fundamentals are stable. If there are any headwinds, I’d say they all stem from uncertainty about policy coming from Washington and also the global political landscape.”

“3% GDP is somewhat hampered by the uncertainty.”

“I think we’ll see continued stability of fundamentals, but I’m not so sure we’ll see robust growth. I don’t buy the rhetoric that changes in regulation will change growth rates.”

“The market seems pretty good. Our house-view is: this cycle still has legs for a few more years.”

“Supply and demand fundamentals in most sectors are stable.”

“I think the real estate market feels okay. Sure, there’s geopolitical uncertainty out there, but we’re still pretty stable. I will say, six months ago it felt like the market was getting overbought, but now it feels good.”

“Retail is something everyone is trying to figure out.”

“We don’t think there will be a recession this year. Maybe in 2019, when we see prices falling, but not this year.”

Exhibit 1
The Real Estate Roundtable Sentiment Index

<table>
<thead>
<tr>
<th>Index Reading</th>
<th>Future Conditions</th>
<th>Overall</th>
<th>Current Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3 2008</td>
<td>10</td>
<td>40</td>
<td>50</td>
</tr>
<tr>
<td>Q1 2009</td>
<td>20</td>
<td>45</td>
<td>52</td>
</tr>
<tr>
<td>Q3 2010</td>
<td>35</td>
<td>50</td>
<td>53</td>
</tr>
<tr>
<td>Q1 2011</td>
<td>40</td>
<td>55</td>
<td>53</td>
</tr>
<tr>
<td>Q3 2012</td>
<td>45</td>
<td>60</td>
<td>53</td>
</tr>
<tr>
<td>Q1 2013</td>
<td>50</td>
<td>65</td>
<td>53</td>
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<tr>
<td>Q3 2014</td>
<td>55</td>
<td>70</td>
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<tr>
<td>Q1 2015</td>
<td>60</td>
<td>75</td>
<td>53</td>
</tr>
<tr>
<td>Q3 2016</td>
<td>65</td>
<td>80</td>
<td>53</td>
</tr>
<tr>
<td>Q1 2017</td>
<td>70</td>
<td>85</td>
<td>53</td>
</tr>
</tbody>
</table>
General Conditions
(continued)

With the new administration in Washington encountering challenges implementing their policies, there is not the same level of economic optimism as was expressed in the Q1 report. However, participants were nearly unanimous in their belief that the current real estate cycle has room left to run.

“Globally capital is flowing. Unless you believe the world is coming to an end, you believe capital flows will continue. We see a lot of growth in China and India, which means more capital flowing.”

“We are late in the cycle, no doubt. I’m hopeful to optimistic about this year being better than the doomsayers think.”

“I think our best case scenario for this year is equilibrium, as far as prices go. At worst, we’re starting to see corrections.”

“Overall I think the market was more bullish on the back of the hope that Donald’s policies could create greater growth. The failure of the healthcare bill introduced questions about his effectiveness and has possibly dampened some of the positive sentiment.”

“Multifamily makes me most nervous.”

“You’re hearing real estate private equity groups say they’re in a golden purgatory. Plenty of buyers, but not a lot of attractive prices.”

“We are at a unique time; plentiful capital, but not enough product.”

“We’re operating with the view that we’re close to equilibrium in the markets.”

Exhibit 2

Perspectives on Real Estate Market Conditions

<table>
<thead>
<tr>
<th>% of respondents</th>
<th>Much worse</th>
<th>Somewhat worse</th>
<th>About the same</th>
<th>Somewhat better</th>
<th>Much better</th>
</tr>
</thead>
</table>

Today vs. One Year Ago

- 28% Much worse
- 23% Somewhat worse
- 45% About the same
- 4% Somewhat better
- 1% Much better

One Year From Now vs. Today

- 22% Much worse
- 26% Somewhat worse
- 48% About the same
- 3% Somewhat better
- 1% Much better
Asset Values

In certain markets, asset pricing has reached near equilibrium. Retail stands out as the most challenging property type to price, followed by multifamily, which is seen to be near peak pricing.

“Quality assets are as strong as ever.”

“Volumes of loans have dropped, there’s less buying happening as prices are moving higher in most markets. The problem is buyers don’t want to buy at the prices they’re seeing, but sellers can’t sell at a lower price because they need to sell at the existing price. Simply put, buyers can’t buy and sellers can’t sell with pricing as it stands.”

“Retail seems to be highly challenged right now. The right pricing for retail is out there, but I don’t know what it is.”

“We’re seeing pricing in the cities doing well, even mid-tier cities. Rural locations are seeing a stable to downward trend in pricing.”

“With pricing this well set, it’s hard to have conviction you’re betting correctly on which way an asset’s going to go. We’d like to see some volatility.”

“Asset pricing feels okay, but it’s certainly expensive.”

“For core assets, you have people that want to deal and the buyer pool is more discerning. This isn’t stopping many deals from coming to market.”

“Pricing is starting to smell like perfection”.

“We’ve seen flat development on prices. No major increases in the last two quarters of watching prices”.

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Exhibit 3

**Real Estate Asset Values**

<table>
<thead>
<tr>
<th>% of respondents</th>
<th>Much lower</th>
<th>Somewhat lower</th>
<th>About the same</th>
<th>Somewhat higher</th>
<th>Much higher</th>
</tr>
</thead>
</table>

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**Today vs. One Year Ago**

- Much lower: 2%
- Somewhat lower: 24%
- About the same: 43%
- Somewhat higher: 31%
- Much higher: 0%

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**One Year From Now vs. Today**

- Much lower: 1%
- Somewhat lower: 36%
- About the same: 48%
- Somewhat higher: 15%
- Much higher: 0%
Capital Markets

Capital is plentiful for the best deals. Equity and debt sources are employing greater levels of discipline for riskier investments. In what many feel is a healthy market environment, riskier deals are more expensive and may require multiple sources of capital.

“Availability of equity is good. There was a frenzy; more capital than deals. The market has moved into a risk and price sensitive mode. It’s a healthy market. If you’re in the market for debt, you’re seeing the same thing; risk sensitivity and pricing to match. Again, healthy.”

“Debt pools are being created, not unlike during the last ride-up. I think it’s a little scary.”

“For good deals, you can find good rates. A good deal is still a good deal.”

“The US is still a safe and desirable destination for foreign capital. Uncertainty elsewhere keeps pushing more money here.”

“Capital is plentiful, but discerning.”

“More and more, you’re seeing lenders say they’ll offer what you need, but we’re at a time in the cycle when you have to be careful what you ask for.”

“Alternative debt funds are making a greater impact. They’re expensive, but if you have a deep value-add play, they can be very useful.”

“Banks are tightening up; they want some regulation relief. With that said, Fannie, Freddie, Life Companies, CMBS; there are many solutions in the market right now. You have to pay for risk and it’s good. Discipline is a good thing.”

Exhibit 4

Availability of Capital

<table>
<thead>
<tr>
<th>% of respondents</th>
<th>Much worse</th>
<th>Somewhat worse</th>
<th>About the same</th>
<th>Somewhat better</th>
<th>Much better</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Today vs. One Year Ago</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>15%</td>
<td>55%</td>
<td>26%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt</td>
<td>43%</td>
<td>36%</td>
<td>18%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>One Year From Now vs. Today</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>27%</td>
<td>52%</td>
<td>17%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt</td>
<td>28%</td>
<td>57%</td>
<td>14%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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(Please note that this is only a partial list. Not all survey participants elected to be listed.)

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