The Real Estate Roundtable Sentiment Index

Third Quarter 2017
The Real Estate Roundtable is pleased to announce the results from the Q3-2017 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 Q3 index came in at 50, a two point drop from the previous quarter. Although most responders for the Q3 report remain confident and view market fundamentals as strong, their optimism has waned for two straight quarters in light of the lack of regulatory changes in Washington DC.

- While most responders feel market fundamentals are strong, they are experiencing hesitation around decision making on the part of their tenants/clients. This hesitation is due to uncertainty about market conditions and trepidation about the new administration in Washington DC.

- Most responders feel high quality assets in primary markets are at peak pricing. A few responders suggested asset prices may be beyond peak. Despite asset pricing being perceived as high, there are many bidders for the highest quality assets.

- Despite the perceived slowing of Chinese capital flowing into the US real estate market, most responders feel equity capital is widely available. In answer to the lack of construction financing, the debt funds have stepped in to fill the void.

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 Q3 index came in at 50, a two point drop from the previous quarter. Although most responders for the Q3 report remain confident and view market fundamentals as strong, their optimism has waned for two straight quarters in light of the lack of regulatory changes in Washington DC.

“I think most property types have solid fundamentals. You have some performing better than others; industrial being in great demand whereas retail is challenged.”

“It seems like we can never get enough multifamily product.”

“I think the real estate cycle is in extra innings. People are asking, how long can this go on? The economy is getting stronger, but not at a crazy rate.”

“Reactions to our long cycle have been interesting. Blue-chip managers moving to a core and core-plus strategy has been fascinating to see.”

“Given the way things are going in Washington DC, it feels like we won’t see much regulatory change. That’s probably a good thing.”

“Capital still wants in, but it feels uncomfortable. There’s nowhere else for the capital to go though, so it deals with the discomfort.”

“After the election, transactions slowed. Trophy assets paused in trading; there was a sense of everyone waiting to see what might happen next. At this point in the year, it seems like we don’t have much additional clarity. With no certainty of change, people have picked up and carried on.”

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 2017</td>
<td>51</td>
<td>50</td>
<td>48</td>
</tr>
<tr>
<td>Q3 2016</td>
<td>50</td>
<td>49</td>
<td>47</td>
</tr>
<tr>
<td>Q3 2015</td>
<td>49</td>
<td>48</td>
<td>46</td>
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<tr>
<td>Q3 2014</td>
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<td>Q3 2013</td>
<td>48</td>
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<td>Q3 2012</td>
<td>48</td>
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<td>44</td>
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<tr>
<td>Q3 2011</td>
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<tr>
<td>Q3 2010</td>
<td>48</td>
<td>48</td>
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<tr>
<td>Q3 2009</td>
<td>48</td>
<td>48</td>
<td>44</td>
</tr>
<tr>
<td>Q3 2008</td>
<td>48</td>
<td>48</td>
<td>44</td>
</tr>
</tbody>
</table>
General Conditions
(continued)

While most responders feel market fundamentals are strong, they are experiencing hesitation around decision making on the part of their tenants/clients. This hesitation is due to uncertainty about market conditions and trepidation about the new administration in Washington DC.

“I’m not sure where we are in the market cycle, but I know there’s a lot more equity in most deals than we saw last time.”

“What do they say, ‘no cycle dies of old age’, well this one’s trying.”

“We’re seeing cautiousness on the part of our tenants. There’s a reluctance to make long-term decisions; lease terms are set at three to five years and not longer.”

“Is a really tough time to be a new manager. Unless you’re an established brand, raising capital for funds is really challenging.”

“Generally I’d say the market has slowed. There seems to be a ‘wait and see’ sentiment out there. Pricing is high, and debt is expensive for all but high quality assets. It makes sense to me that transactions volumes are down.”

“I think the market is in a relatively solid place, but I also think we’re one tweet away from a recession.”

“There was so much exuberance post election, and now the sentiment is that nothing has happened.”

“There doesn’t seem to be much change likely in the near future, but that could all change with one tweet. I also think driving GDP growth beyond its natural state is concerning. Personally, I’ll take the turtle approach.”

<table>
<thead>
<tr>
<th>Perspectives on Real Estate Market Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of respondents</td>
</tr>
<tr>
<td>Much worse</td>
</tr>
<tr>
<td>Somewhat worse</td>
</tr>
<tr>
<td>About the same</td>
</tr>
<tr>
<td>Somewhat better</td>
</tr>
<tr>
<td>Much better</td>
</tr>
</tbody>
</table>

Exhibit 2

Today vs. One Year Ago

- Much worse: 1%
- Somewhat worse: 20%
- About the same: 55%
- Somewhat better: 23%
- Much better: 1%

One Year From Now vs. Today

- Much worse: 2%
- Somewhat worse: 28%
- About the same: 54%
- Somewhat better: 16%
Asset Values

Most responders feel high quality assets in primary markets are at peak pricing. A few responders suggested asset prices may be beyond peak. Despite asset pricing being perceived as high, there are many bidders for the highest quality assets.

“Pricing really depends on what kind of asset and what geography you’re looking at.”

“For high quality assets in good markets, pricing hasn’t moved and the bidding pool is thinner. By contrast, for high-quality assets in bad markets, cap-rates are rising.”

“Everyone knows yields are thin, prices are past peak.”

“We think prices are pretty high. It's a great time to sell. So who’s buying? We see the large foreign capital sources when we’re selling assets.”

“The battle ground in the debt world is the refinancing of stabilized property in stable cities. Life companies, banks and even the debt funds are all at that table.”

“The amount of capital competing for existing assets is extreme. Most of the interest is from institutional investors with patient capital. We underwrite some of these high interest generating assets and we can’t see how to make money in the first five years.”

“You can still find some assets that are reasonably priced. They're in secondary cities, in specific sectors and as the adage goes, it's location, location, location.”

“In major markets, we’re seeing all-time low cap-rates.”
Capital Markets

Despite the perceived slowing of Chinese capital flowing into the US real estate market, most responders feel equity capital is widely available. In answer to the lack of construction financing, the debt funds have stepped in to fill the void.

“We’ve seen a meaningful slowing of sovereign capital coming into the US. Regulation in China seems to be slowing capital flow.”

“Joint venture and co-investment partners are plentiful.”

“If you ask me, there’s too much equity out there. There’s no shortage of capital. The foreign capital is ignoring what appear to be peak prices as they intend to hold for twenty five years at least.”

“There’s a lot of equity available. For the highest quality assets, people are giving money away.”

“There is a quality bar, but if you meet the standard, there is plenty of affordable debt out there.”

“Private lending has been supporting construction.”

“Even with the rumored lack of capital, construction is on. The supply coming on is scary.”

“Aggressiveness in the debt market is helping drive pricing.”

“Private lenders are competing with and winning mandates from large money center banks.”

“For most of our deals, we are seeing three, four or five different lenders at the table. Even construction lending seems to be available. The debt funds seem to be filling more gaps.”

Exhibit 4
Availability of Capital

<table>
<thead>
<tr>
<th>% of respondents</th>
<th>Today vs. One Year Ago</th>
<th>One Year From Now vs. Today</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Much worse</td>
<td>18%</td>
<td>20%</td>
</tr>
<tr>
<td>Somewhat worse</td>
<td>58%</td>
<td>71%</td>
</tr>
<tr>
<td>About the same</td>
<td>22%</td>
<td>7%</td>
</tr>
<tr>
<td>Debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Much worse</td>
<td>26%</td>
<td>27%</td>
</tr>
<tr>
<td>Somewhat worse</td>
<td>44%</td>
<td>62%</td>
</tr>
<tr>
<td>About the same</td>
<td>28%</td>
<td>10%</td>
</tr>
</tbody>
</table>
Participants

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

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