The Real Estate Roundtable Sentiment Index

Fourth Quarter 2018

The Real Estate Roundtable

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The Real Estate Roundtable is pleased to announce the results from the Q4-2018 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 Q4 index came in at 50, a two point drop from Q3. Most suggest that current market conditions are positive and expect such conditions to continue into the new year. However, some responders continue to question, "How much longer can this last?"
- Responders pointed to the increase in costs for construction projects and the corresponding decline in development returns as a concerning market factor. As a result, fewer responders were highly optimistic about market conditions in 2019 as yield becomes increasingly hard to find.
- For the first time in many quarters, a large proportion of responders are indicating a belief that asset values will start declining. However, pricing is expected to stay relatively strong for assets in major markets.
- Responders feel debt and equity capital are plentiful in today's market. Equity investors and lenders alike continue to show strong appetite for real estate.

[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 Q4 index came in at 50, a two point drop from Q3. Most suggest that current market conditions are positive and many expect such conditions to continue into the new year. However, some responders continue to question, "How much longer can this last?"

"We've had a good year, raised a fair amount of capital, seen strong performance in all of our business lines and have increased expectations about what we'll achieve next year. Our success meeting the higher expectations is of course partially dependent on what decisions the current administration makes."

"Overall I feel good. Business is good, markets are good; fundamentals are all really strong. We think there are a few years left before a downturn."

"There's an overall industry mood of thoughtful caution driven by a sense we're getting late in the current cycle. Yet there's no clear thesis about what might precipitate a downturn. So we continue investing on a steady pace, though with a discipline rooted in our dark memories of the global financial crisis and tempered by that pervasive sense of caution we feel."

"We are comfortable but cautious when looking at the market. People aren't behaving absurdly, but it's smart to be cautious this late in the cycle. We just don't see a clear thesis on what could potentially happen to derail the market."

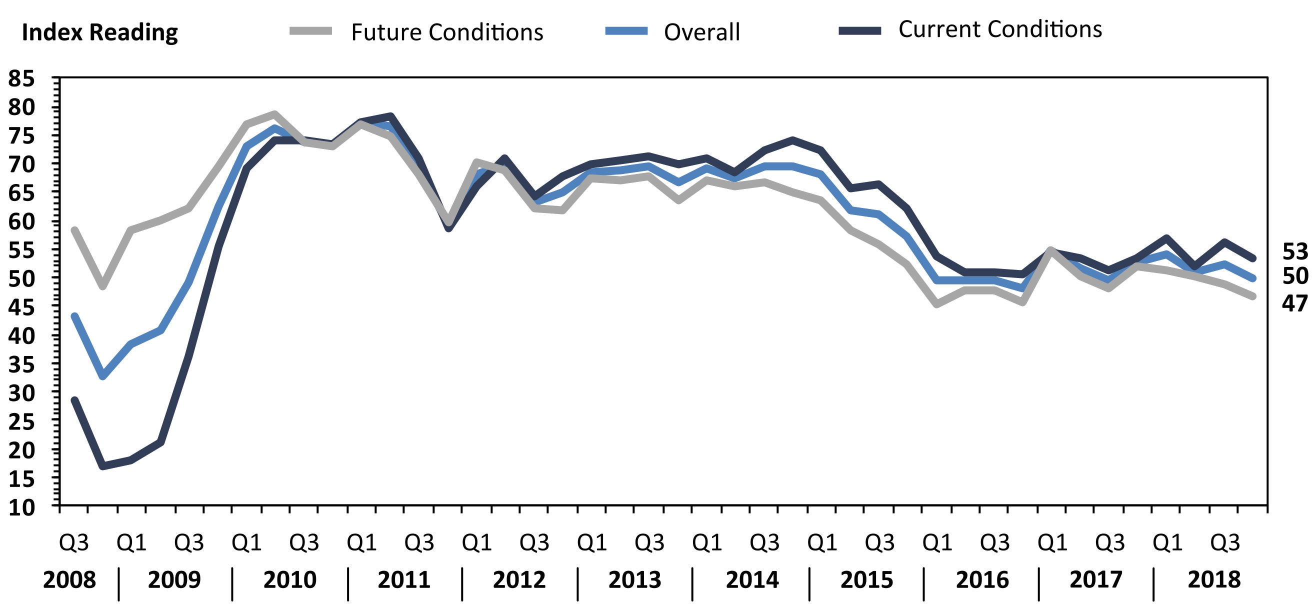
"The commercial real estate market is extremely healthy. Supply and demand are in balance. The state of the industry is sound and solid."

"Everyone is doing well, but also everyone is asking, how much longer do we have?"

"We're still bullish; the banks, agencies, Fannie and Freddie have all done their jobs, so we feel there's room to grow."

Exhibit 1

The Real Estate Roundtable Sentiment Index



General Conditions
(continued)

Responders pointed to the increase in costs for construction projects and the corresponding decline in development returns as a concerning market factor. As a result, fewer responders were highly optimistic about market conditions in 2019 as yield becomes increasingly hard to find.

"The cost of construction has gone up. We believe the cost to build has become prohibitive. Labor and materials are more expensive. The delays in starting a project are a result of contractors lacking the manpower, and the delays in completion are adding to the increased costs."

"Construction rates seem to be five to ten percent higher this year in major markets. More than the tariff decisions coming into the system, we feel this is pressure for a lack of labor."

"We've seen development returns coming down. People used to look for returns of 25 - 30% before undertaking development. Now, if the returns are in the high teens and up, they'll do it."

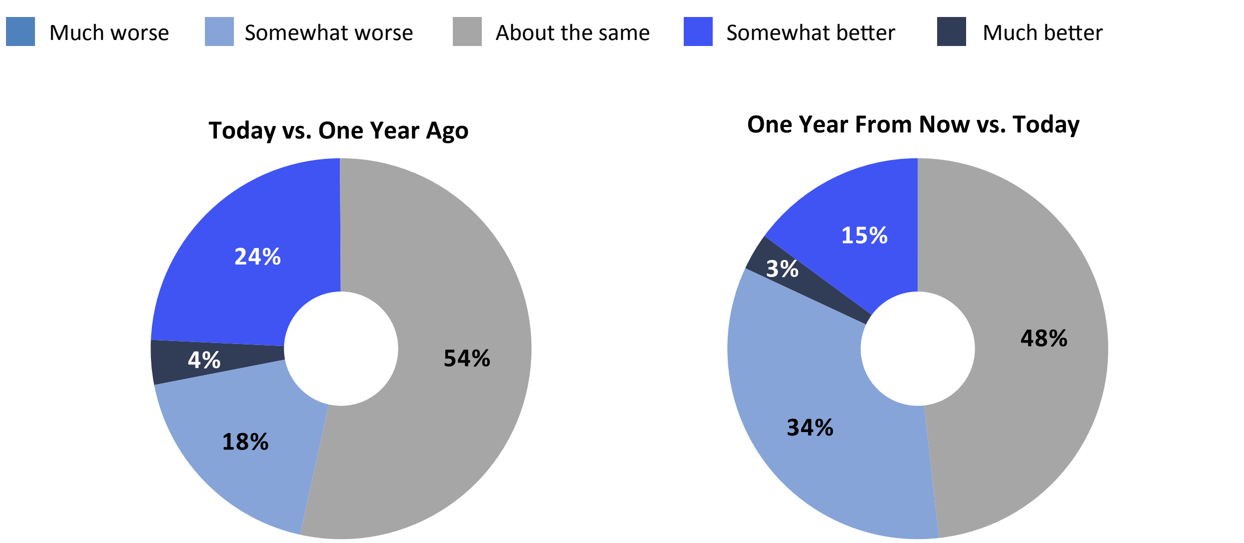
"There seems to be a lot of noise about overbuilding multifamily product, but everything keeps getting absorbed. If were looking at the market through a camera lens and you zoom out, you'd see its really a housing story. Household formation continues and at present, there's a record gap in new household formation versus available inventory."

"Market to market really matters. Not just city to city, but submarkets in those cities have their own unique circumstances. To get the full picture, you need to pay attention to all the nuances."

Exhibit 2

Perspectives on Real Estate Market Conditions

% of respondents



Asset Values

For the first time in many quarters, a large proportion of responders are indicating a belief that asset values will start declining. However, pricing is expected to stay relatively strong for assets in major markets.

“We see real estate pricing in a mode of decline. It's a cautious yellow flag for us, but we’re still investing.”

“We see pricing as stable for core real estate. In some markets there's a sense that pricing may ease back.”

“We have absolutely hit a peak in pricing.”

“Despite high prices, we still believe there’s still room for increased pricing in certain markets.”

“The buyer pool is shrinking. Pricing is holding, but if rates continue to pick up, we may see some changes there.”

“For institutional quality assets, unless there’s another leg-up on the ten year treasury, maybe we will see change. Otherwise, pricing is going to stay high.”

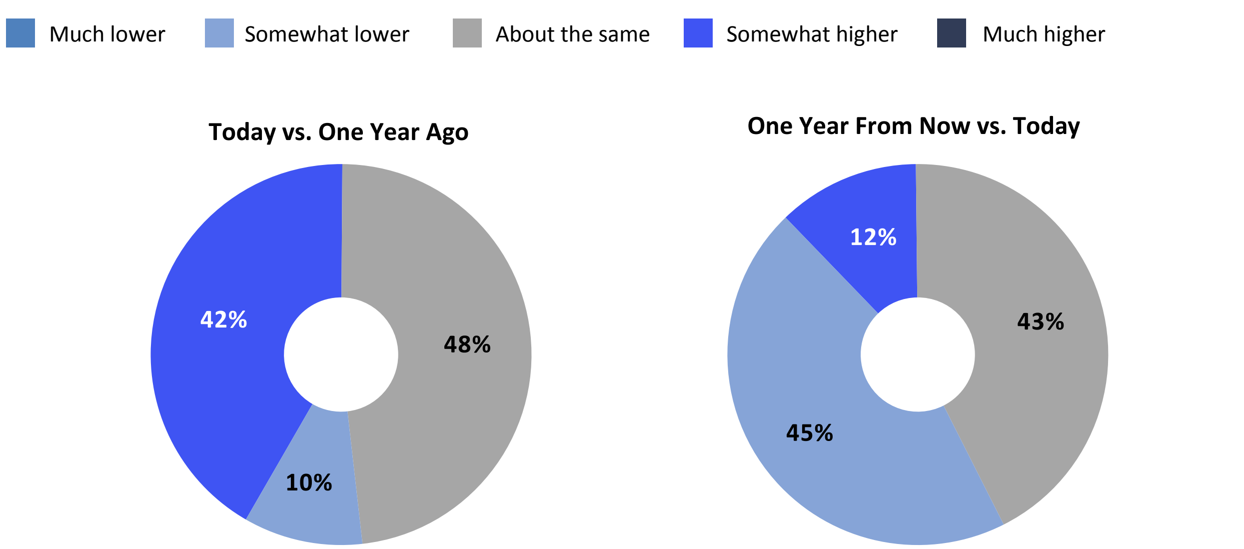
“There’s a lot of noise and chatter about softening, but what we’re seeing on existing assets is nothing new. The concerns aren’t translating to asset values.”

“In the industrial market, we still don’t know where the ceiling is. We’re not sure what the price of speed is, and until that’s decided, we expect continued growth.”

Exhibit 3

Real Estate Asset Values

% of respondents



Capital Markets

Responders feel debt and equity capital are plentiful in today’s market. Equity investors and lenders alike continue to show strong appetite for real estate.

“Equity availability is strong. Equity capital wants to come into the market, and even if interest rate increases become aggressive, it will still need to find a home.”

“The debt markets are operating on all cylinders.”

“We see no shortage of capital of any sort. If anything, we’re seeing an uptick of availability.”

“The debt markets are as competitive as they’ve ever been. We’ve seen some lenders give up a little margin for recourse. The good news is we continue to see strong discipline in underwriting.”

“We don’t see a shortage of equity capital; equity seems to be willing to take more risk at the moment.”

“There’s a great flow of debt capital for the right sponsorship. People are getting pickier.”

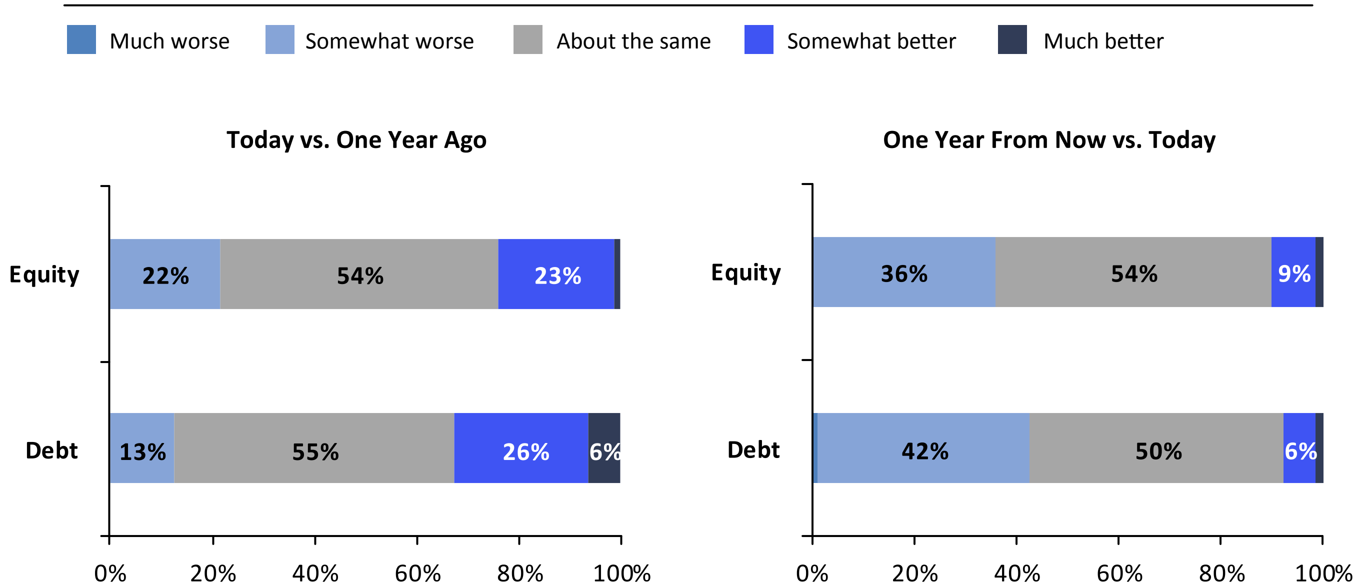
“Banks are providing non-recourse on speculative industrial development. If the banks are getting loose anywhere, it's on recourse.”

“Equity is exploring newer asset classes, data centers for example. Equity is chasing this in the same way it’s moving into secondary markets in search of yield.”

Exhibit 4

Availability of Capital

% of respondents



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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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