The Real Estate Roundtable Sentiment Index

Second Quarter 2020

The Real Estate Roundtable

The Real Estate Roundtable Sentiment Index[1]

The Real Estate Roundtable is pleased to announce the results from the Q2-2020 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 values.

Topline Findings

- The Real Estate Roundtable Q2 2020 Sentiment Index registered a score of 38, a decrease of 14 points from the first quarter of 2020. Many respondents confirm tenants are having increased difficulties paying their rent obligations as a result of massive job losses. Most survey participants expect the eventual reopening of businesses and resolution of rental obligations will lead to improved real estate market conditions.
- Many survey respondents have seen the industry quickly adapt to new social distancing environments by implementing technologies and online processes that provide some continuity for current operations. Market volatility is leading to uncertainty about how future retail real estate and multifamily demand will be affected.
- Job losses have led to widespread economic uncertainty. Lockdowns and stay-at-home orders have also impaired the ability of survey respondents to accurately value commercial real estate assets. As a result, transactions have slowed until a medical solution to the outbreak may allow reopening of properties, renewed business activity and underwriting of investments.
- The majority of survey participants indicated the availability of debt and equity are worse today than one year ago. Many respondents indicated they believe there is plenty of equity capital on the sidelines, but it is unwilling to invest in a market without price discovery. As for debt markets, debt funds have been largely absent from the market and only the most pristine assets are qualifying for new debt 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 Real Estate Roundtable Q2 2020 Sentiment Index registered a score of 38, a decrease of 14 points from the first quarter of 2020. Many respondents confirm tenants are having increased difficulties paying their rent obligations as a result of massive job losses. Most survey participants expect the eventual reopening of businesses and resolution of rental obligations will lead to improved real estate market conditions.

"Real estate is a microcosm of the larger industry. The stability in the real estate market is driven by jobs, and the massive job loss is significantly affecting the real estate industry. I think everybody is waiting to see what reopening of the economy looks like. Everyone understands it's going to be phased and slow, but I think you'll see optimism as the country opens back up."

"What I hope is that you'll start to see reopening in the middle of May and you'll have a new normal, but people will adapt, and it will feel like a more normal posture. We are looking to the future. The way you do that is to look at other countries ahead of us– what is it like for Italy, China, etc.? If you get to the end of June with much of economy closed still, people may hunker down for the remainder of the year."

"I think the market is done until the end of the year. Even if we miraculously show up tomorrow with everything back open, the rest of the world is still closed. Think about how much of our economy is dependent on global trade and currency flows."

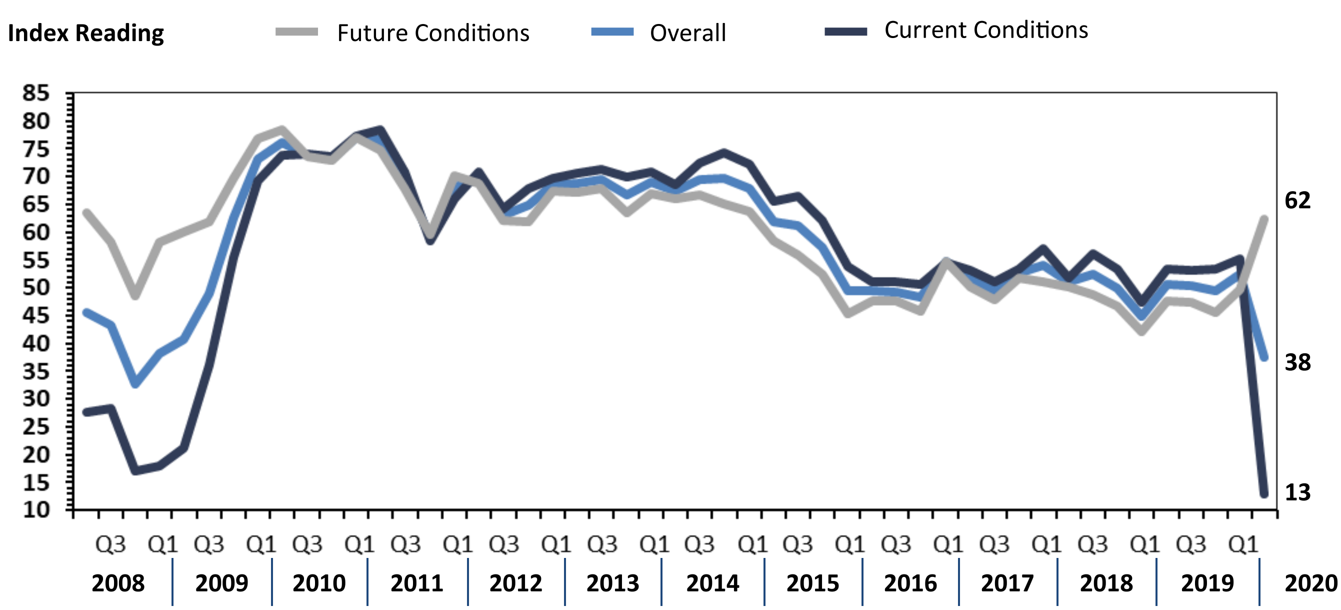
"We have been focusing on helping people pay rent and keep their stores and apartments. We haven't had a lot of thought going into growing and developing new properties. April collections were okay, but they were worse in May and we expect the decline to continue. You forge your reputation in the toughest times."

"In the non-fashion retail sector, things were okay in the last quarter of 2019. There was difficulty in the mall properties, but the rest of the sector was based on convenience and doing fine. The new problem is that landlords have been forced to transform leasing operations into collections agencies overnight. We have never seen anything like this. What previously felt like a partnership between landlord and tenant is now that of a lender and a borrower. Partnership is out the window."

"The retail sector has been forced to accelerate its online evolution. What was going to be a five-year transition has been compressed into six months"

Exhibit 1

The Real Estate Roundtable Sentiment Index



General Conditions
(continued)

Many survey respondents have seen the industry quickly adapt to new social distancing environments by implementing technologies and online processes that provide some continuity for current operations. Market volatility is leading to uncertainty about how future retail real estate and multifamily demand will be affected.

"We've been surprised by the effectiveness of Facetime tours and video vignettes. Better than 50% of new leases expected are happening. We think this is a shocking number all things considered. On one hand we're excited, on the other, it's a question of how long it lasts."

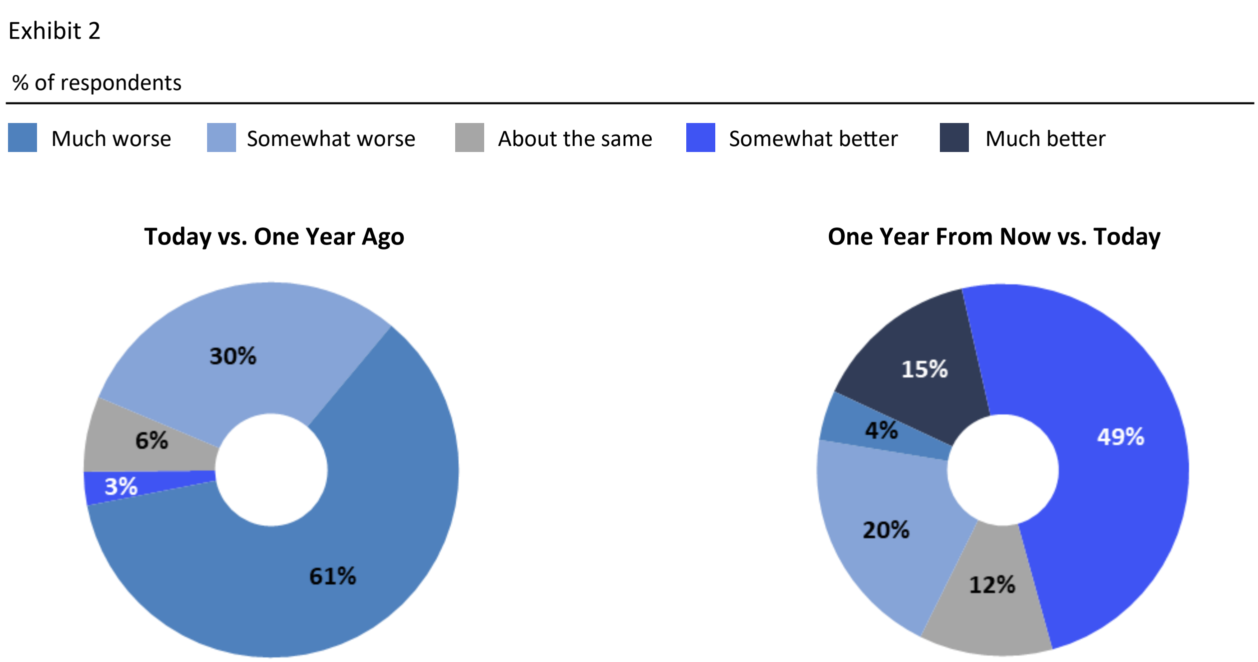
"On the multifamily front, better than one in three tenants is deciding to move. We don't know where they're going though. Are they moving home or to less expensive communities?"

"I really think the balance of the year is going to be difficult on owners and operating culture. There are a lot of articles about the CARES Act and small business and then there's the credit markets getting saved. So, who's in the middle? It's the real estate market and there's no real activity to help the landlords."

"We expected 15-20% delinquency in April and May, but were pleasantly surprised to see only a 5% delinquency rate."

"Retail is going from experiential real estate to curb-side pickup. Freezer and refrigeration spaces are coming to local properties soon. I think we're looking at a five-year period of dealing with the psychic fallout of COVID-19."

"The silver lining, if there is one, is that this is the boost the suburbs needed. This is a huge advantage for Connecticut and all those suburb markets that were dying on the vine. We think New York City is in trouble from a residential perspective. Remote working is going to exacerbate this issue further."



Asset Values

Job losses have led to widespread economic uncertainty. Lockdowns and stay-at-home orders have also impaired the ability of survey respondents to accurately value commercial real estate assets. As a result, transactions have slowed until a medical solution to the outbreak may allow reopening of properties, renewed business activity and underwriting of investments.

"I don't know how long it takes for capitulation from the sellers in this market. Leverage is low, relative to where its been historically, lots of floating rate debt is around too. How do you know what to bid on? You usually have a financial problem which causes issues. This time, it's something very different, it's a medical issue without real precedent. Everyone is underwriting something different. Folks are going to be waiting until there's clarity on the medical issue, then you can underwrite investments again."

"Right now price discovery is impossible."

"The lodging business was the most impacted and most immediate triage for us. Occupancy fell through the floor, except in Florida (spring break). Occupancy was 5-15% at the beginning of this and now is 15% on average. We've pushed our development deals until 2021. Right now we look at the market and think, 'We can build for $500,000 per key, or buy at $350,000 per key.' We think the latter makes more sense."

"We have no idea on pricing at the moment. There's been no price discovery. If we can't show a space, how do we lease it?"

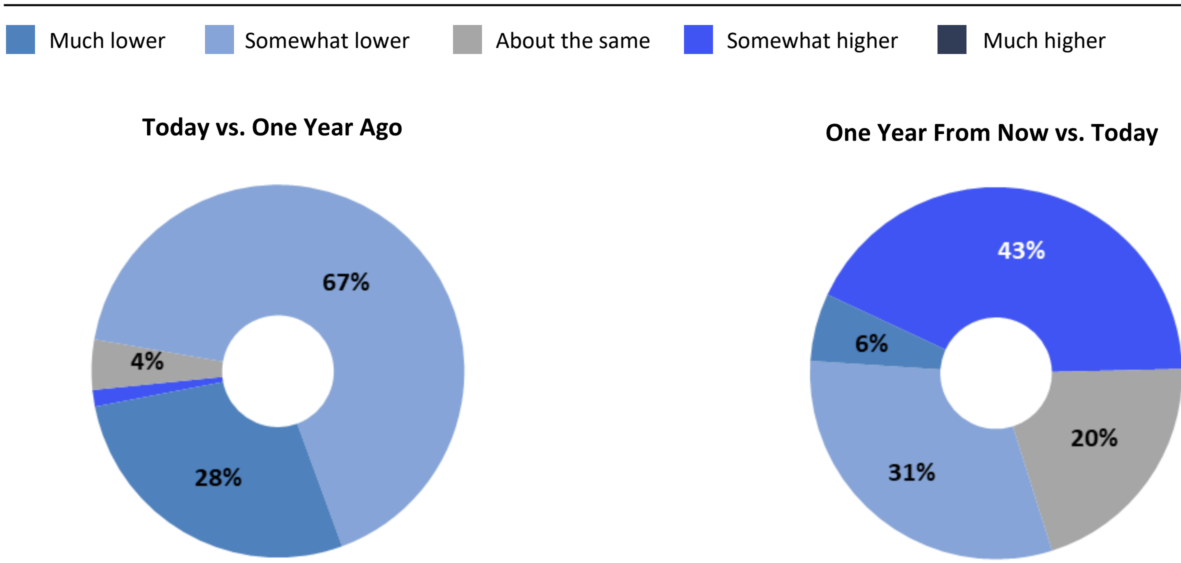
"Nobody is selling now that doesn't need to. We saw a few final deals in Los Angeles still close, but with minor price adjustments in the 5%-8% range. People are walking away from non-refundable deposits. If you don't have to sell right now, why would you sell? If you brought a deal to market now, deal teams would be all over it and angling for any type of discount they can justify."

"If you have good credit and a high quality cash-flowing deal, there's capital out there."

Exhibit 3

Real Estate Asset Values

% of respondents



Capital Markets

The majority of survey participants indicated the availability of debt and equity are worse today than one year ago. Many respondents indicated they believe there is plenty of equity capital on the sidelines, but it is unwilling to invest in a market without price discovery. As for debt markets, debt funds have been largely absent from the market and only the most pristine assets are qualifying for new debt capital.

"Stabilized deals are still finding financing from the agencies and the insurance companies. If a deal is challenging at all, lenders aren't interested."

"The banks are preserving liquidity. They don't know what to expect in this environment and every corporate borrower has drawn down on their lines. This partially freezes their lending ability and appetite."

"Debt funds are getting margin calls, there's a huge drain there."

"Debt markets seem to be balancing out. Loans on hospitality and multifamily assets are not going to happen. Maybe in a few months we will see construction debt come back. Everyone's pricing models are in flux right now. If you don't have to tap the debt market right now, wait for 60 days."

"There's a ton of private capital out there, but they aren't sure what prices are. There's no bid-ask spread, there's no ask at all."

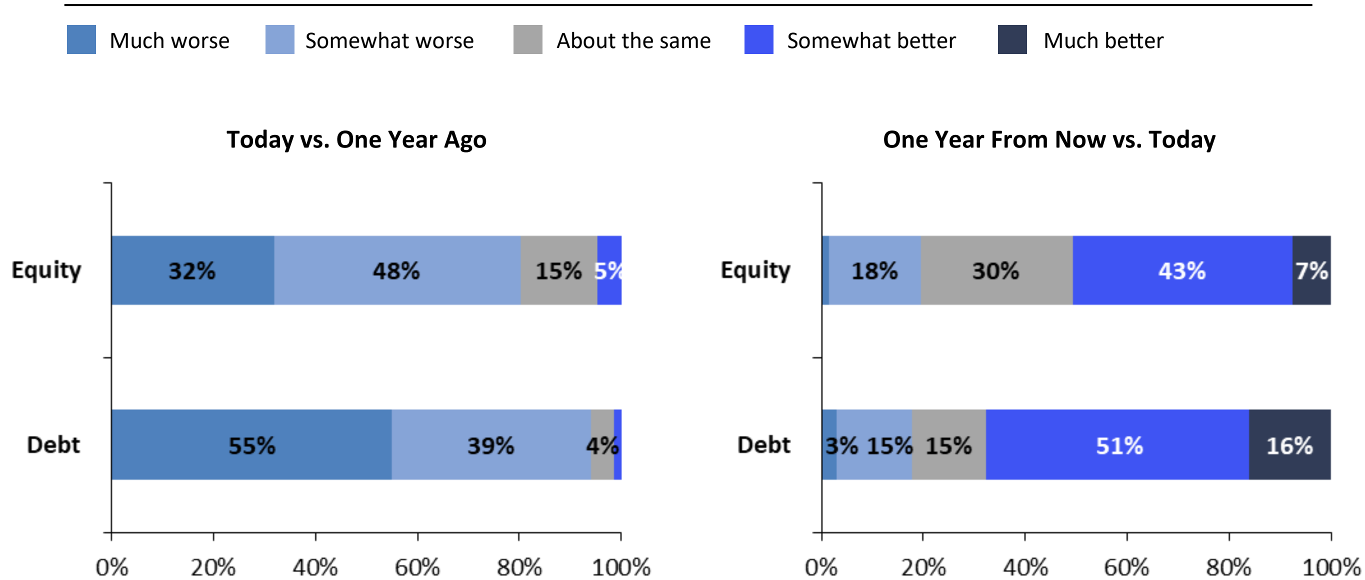
"We don't know how the capital markets are going to behave right now. How would you conduct an appraisal on a real estate asset today; what's it worth?"

"There is plentiful dry powder in the system, but people are cautious about catching the falling knife. They don't want to act too early."

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.)

Thomas Arnold
ADIA

Mark E. Rose
Earl E. Webb
Avison Young

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

Owen D. Thomas
Boston Properties

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

Richard J. Campo
Camden Property Trust

Paul W. Whetsell
CapStar Hotel Company

Douglas M. Pasquale
Capstone Enterprises

Robert M. Stern
Castle Hill Investors

Mike Lafitte
CBRE

Alan L. Gosule
Clifford Chance LLP

Steven DeFrancis
Cortland

Chuck Lee
Credit Suisse Securities (USA) LLC

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

Jana Cohen-Barbe
Dentons US LLP

Charles H. Wurtzebach
DePaul University—Real Estate Center

Jay Epstein
DLA Piper

James B. Connor
Duke Realty Corporation

Daniel M. Neidich
Dune Real Estate Partners LP

Marshall Loeb
EastGroup Properties, Inc.

Jodie W. McLean
EDENS

Anthony E. Malkin
Empire State Realty Trust, Inc.

Peter E. Baccile
First Industrial Realty

Alex Klatskin
Forsgate Industrial Partners

Chaim Katzman
Gazit Group USA, Inc.

Randall K. Rowe
Green Courte Partners LLC

Robert J. Ivanhoe
Greenberg Traurig LLP

Kevin A. Shields
Griffin Capital Company LLC

Dean Parker
Hinshaw & Culbertson LLP

William S. Janes
Iron Point Partners LLC

Richard I. Gilchrist
Irvine Company

Scott O. Jones
Jacobs

Guy K. Johnson
Johnson Capital Group, Inc.

Geordy Johnson
Johnson Development Associates, Inc.

Conor Flynn
Kimco Realty Corporation

Ralph Rosenberg
KKR

Eric C. Resnick
KSL Capital Partners

Jeff Jacobson
LaSalle Investment Management, Inc.

Phillip Belling
LBA Realty

Michael H. Lowe
Lowe

Kevin J. McMeen
MidCap Financial LLC

James H. Miller
Miller Global Properties

John Z. Kukral
Northwood Investors

Russell L. Appel
Praedium Group LLC, The

Todd Everett
Principal Real Estate Investors

Eugene F. Reilly
Prologis

Peter M. Fass
Proskauer Rose LLP

Jerry L. Starkey
RE Partners International

Richard S. Ziman
Rexford Industrial Realty, Inc.

Daniel J. Moore
Rockefeller Group International, Inc.

Michael R. McElroy
Ryan Companies US, Inc.

Glenn A. Shannon
Shorenstein Properties LLC

Marty Burger
Silverstein Properties

Jeffrey B. Citrin
Square Mile Capital Management LLC

Benjamin S. Butcher
STAG Industrial, Inc.

Stanley (Skip) Wells
State Street Global Advisors

John Fish
Suffolk

Gregg Gerken
TD Bank

Anthony Dona
Thackeray Partners

Michael A. Covarrubias
TMG Partners

Thomas W. Toomey
UDR

Gary M. Tischler
Vanbarton Group LLC

Walker Noland
Virginia Retirement System

David Schwartz
Waterton

Gilbert Winn
WinnCompanies

Contact

Please direct all inquiries regarding this study to:

Mr. Travis Kononen
Managing Director
Ferguson Partners Ltd.
220 Montgomery Street, Suite 334
San Francisco, CA 94104
Phone: (628) 213-7708
E-mail: tkononen@fergusonpartners.com