The Real Estate Roundtable Sentiment Index

Third Quarter 2020

The Real Estate Roundtable

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The Real Estate Roundtable is pleased to announce the results from the Q3 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 Q3 2020 Real Estate Roundtable Sentiment Index registered a score of 42, an increase of four points from the second quarter of 2020. Many respondents expressed optimism about future market conditions as they feel current market conditions are the result of the COVID-19 pandemic, as opposed to poor underlying market fundamentals. However, until a vaccine or treatment is released and the general populace regains its confidence, responders felt the market would stay in its current challenged state.

- Survey responders expect a challenging market for at least the next six to nine months while a vaccine is created, tested, and distributed. Assuming a vaccine is released, most responders assume the market will be in recovery by this time next year.

- Transaction volume has been down since the beginning of the COVID-19 pandemic in most markets. Anticipated asset price discounts for most property types have yet to materialize as property owners are not willing to capitulate to market pressures if they can keep hold of their assets until a post-vaccine market.

- Many responders described the capital markets as open, but challenging to access. Construction and permanent financing options have increased since the beginning of the pandemic, but are still selective relative to the projects they will finance. Institutional equity has continued to enter the market where it has an existing relationship with a manager; otherwise, investors are reluctant to enter the market at this time.

[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 2020 Real Estate Roundtable Sentiment Index registered a score of 42, an increase of four points from the second quarter of 2020. Many respondents expressed optimism about future market conditions as they feel current market conditions are the result of the COVID-19 pandemic, as opposed to poor underlying market fundamentals. However, until a vaccine or treatment is released and the general populace regains its confidence, responders felt the market would stay in its current challenged state.

"We think there needs to be clarity around a go-forward plan before we have improvement in the market. By that we mean clarity on when we can expect a viable vaccine and the logistics in place to deliver it. We've told our employees: you need to be mentally and emotionally prepared for the current circumstances to persist until the end of this year and into next year too."

"I think the market is still really challenging. Most companies have put new strategies, investments and dispositions on pause. There's not a lot of activity. You're having to create activity and on the rare occasion when there's an attractive transaction, you're seeing a lot of competition for it."

"We aren't going to see a turnaround in the market until there is a vaccine and people can get back to a more normal way of life. When business travel picks up and people meet face to face again, we'll see the market respond very positively."

"The day of the open floor plan may have gone by the wayside. The result is, you may need more space than you did before. Long term, I'm optimistic about the office market, but short term, it looks very challenging."

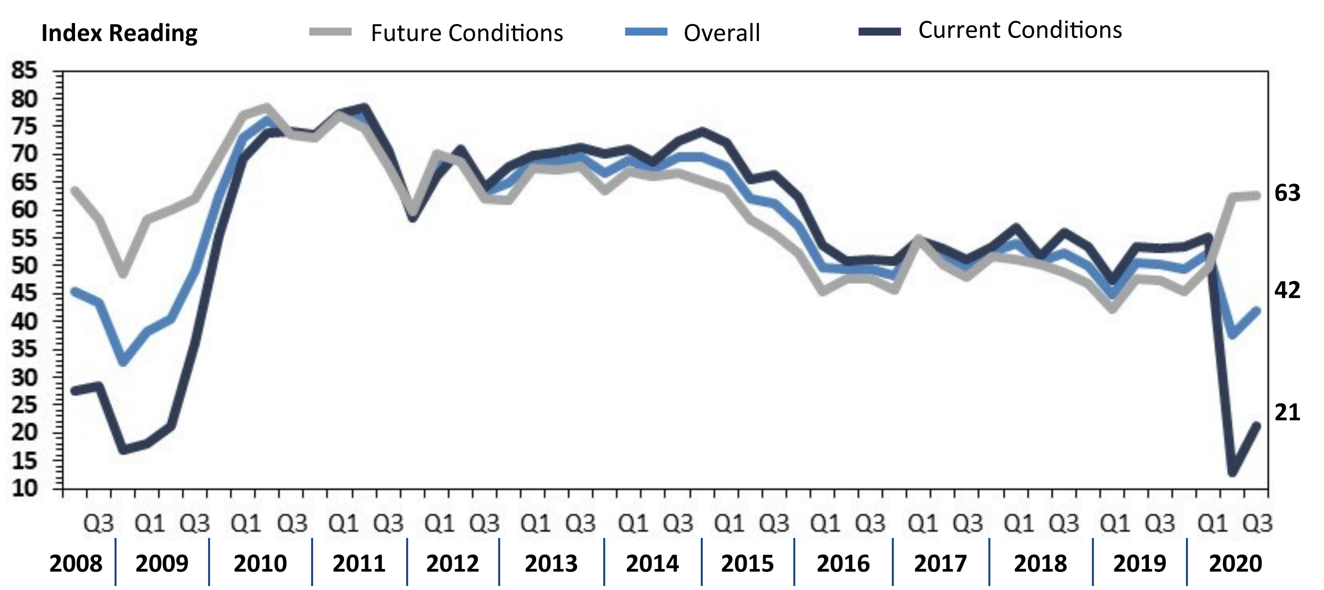
"We don't expect anything approaching normalcy until next spring or summer. If you do not have the medical breakthrough which yields a vaccine, you settle into the funky new normal and it's a much slower recovery."

"If you look at history, it's important to note that the Roaring Twenties followed the 1918 flu pandemic. After a global crisis, and after a domestic lockdown, you cannot underestimate the pent up demand that will exist once people feel safe. I think a lot of people will invest on this bet."

"If we get a vaccine in the first quarter of next year, which seems possible, we will start seeing a positive change in the second quarter of 2021. By the end of 2021, things will have picked up dramatically. For the moment, we expect a stagnation of the current situation for the next nine months."

Exhibit 1

The Real Estate Roundtable Sentiment Index



General Conditions
(continued)

Survey responders expect a challenging market for at least the next six to nine months while a vaccine is created, tested, and distributed. Assuming a vaccine is released, most responders assume the market will be in recovery by this time next year.

"We don't think there is one homogenous real estate market right now. For example: hospitality, senior housing and, shopping centers are severely impacted; we believe there will be significant price corrections for these property types. The uncertainty around demand, pricing, and the true volume of distress for these property types is contributing to the frozen transaction market. Multifamily and net-lease assets, on the other hand, are holding up well."

"I don't think people have been as focused as usual on the impending elections in November, but our national response to COVID-19 may have damaged the economy. This fact has people angry and they want to blame someone, which we think is bringing the election into focus for many people."

"So much money has left the alternatives market for savings and money market accounts. This retrenchment is fear-based and we think that once there is clarity on when you can successfully re-open and when vaccinations are available, we will see a change in behaviors. The money is going to come back in, and we think it will be a great thing for the alternatives space."

"There's not a lot of property on the market which is worth paying attention to. It's very hard to do business in this environment."

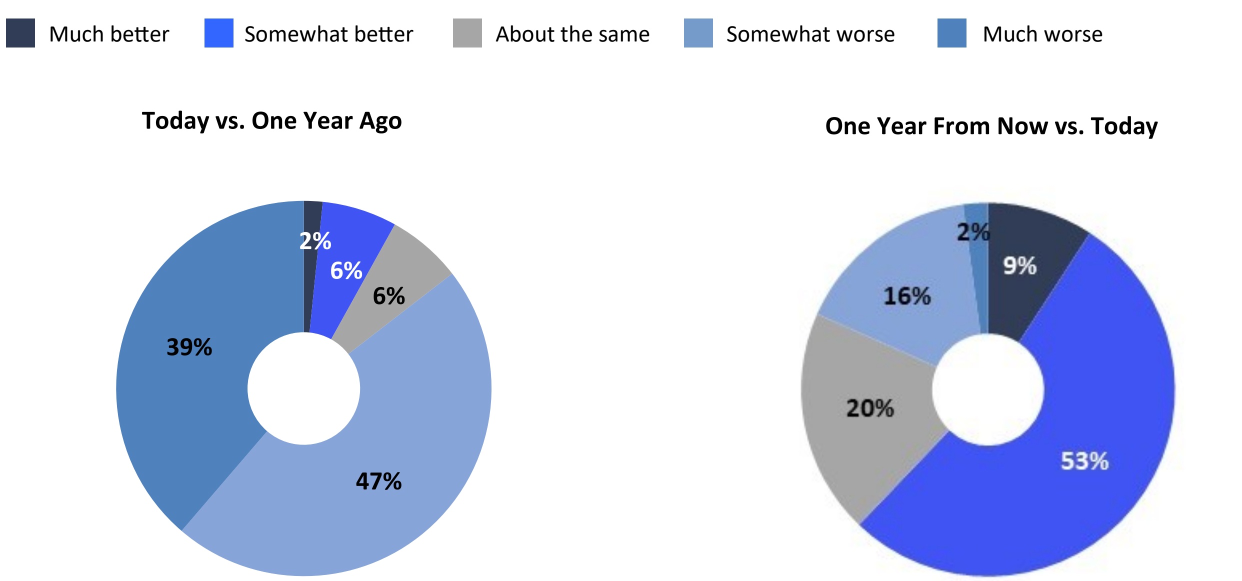
"Urban centers are tough from a performance perspective right now. Many of our expectations around the performance of assets in gateway cities need to be revisited."

"We see two versions of the future. In the version with no vaccine we anticipate a very long overhang of vacancies, a slow recovery and tepid job growth. This first scenario feels like a two to five year recovery. In the second version, a vaccine is successful and the record pent-up demand is released, which creates a record recovery."

Exhibit 2

General Market Conditions

% of respondents



Asset Values

Transaction volume has been down since the beginning of the COVID-19 pandemic in most markets. Anticipated asset price discounts for most property types have yet to materialize as property owners are not willing to capitulate to market pressures if they can keep hold of their assets until a post-vaccine market.

"Our pre-COVID-19 asset value assessments are out the window. In some markets, there is no market for selling an asset; the buyers just aren't there, even for cash flowing assets in good locations."

"Sellers want to offer a three percent discount on pricing while buyers want to see a 10 - 20 percent discount. This all equates to a market which isn't seeing much in the way of transaction volume. We're holding on selling assets until the market starts to normalize."

"To get back to 2019 levels of health for the hotel market, you're going to have to wait until 2023, at least. You would think there would be opportunities to invest in distressed situations as a result, but we haven't seen as many as you would expect."

"We haven't seen major discounts to performing assets yet, certainly not in the 20 percent range which buyers seem to think they can achieve. If you believe there is going to be a vaccine and the stock market is at all-time highs, why would you not wait six to 12 months and then assess whether or not you engage in the market."

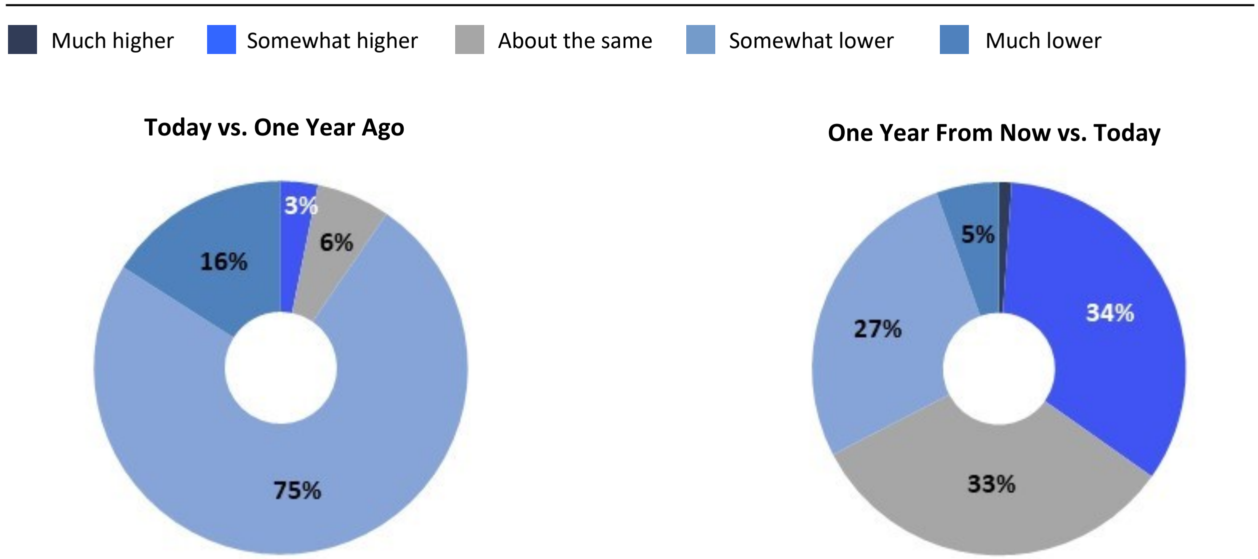
"Multifamily assets are pricing five to eight percent lower than our pre-COVID-19 expectations. Rents have come down two to eight percent since the beginning of the year. There will be concessions in the market, but we think the overall market will be stabilized at this new lower level."

"If we were to generalize, we are seeing somewhere between a 20 - 25 percent discount for hospitality assets, and a 10 - 15 percent discount on retail assets. Multifamily assets seem to be down five to seven percent, but in some markets apartments are already at pre-COVID-19 rates as occupancy has stayed high."

Exhibit 3

Real Estate Asset Values

% of respondents



Capital Markets

Many responders described the capital markets as open, but challenging to access. Construction and permanent financing options have increased since the beginning of the pandemic, but are still selective relative to the projects they will finance. Institutional equity has continued to enter the market where it has an existing relationship with a manager; otherwise, investors are reluctant to enter the market at this time.

"Access to debt of any kind in the market is difficult for office and hospitality properties. We were pursuing a lot of development, but now we will focus on existing asset acquisition because financing is so challenging. I don't know of any lender who's financing new construction in the office market."

"It's challenging to navigate the debt market right now, but there is plenty of capital available. For floating rate loans, the terms may have floors included, but the capital is there."

"Construction lending is still occurring. Quality projects with sound business plans are getting financed."

"The market is choppy and chaotic right now. It's difficult to make estimates about what's going to happen in the future and therefore hard to price assets appropriately."

"The debt markets have been loosening up a bit, but they're still difficult and if the debt is there it's more costly."

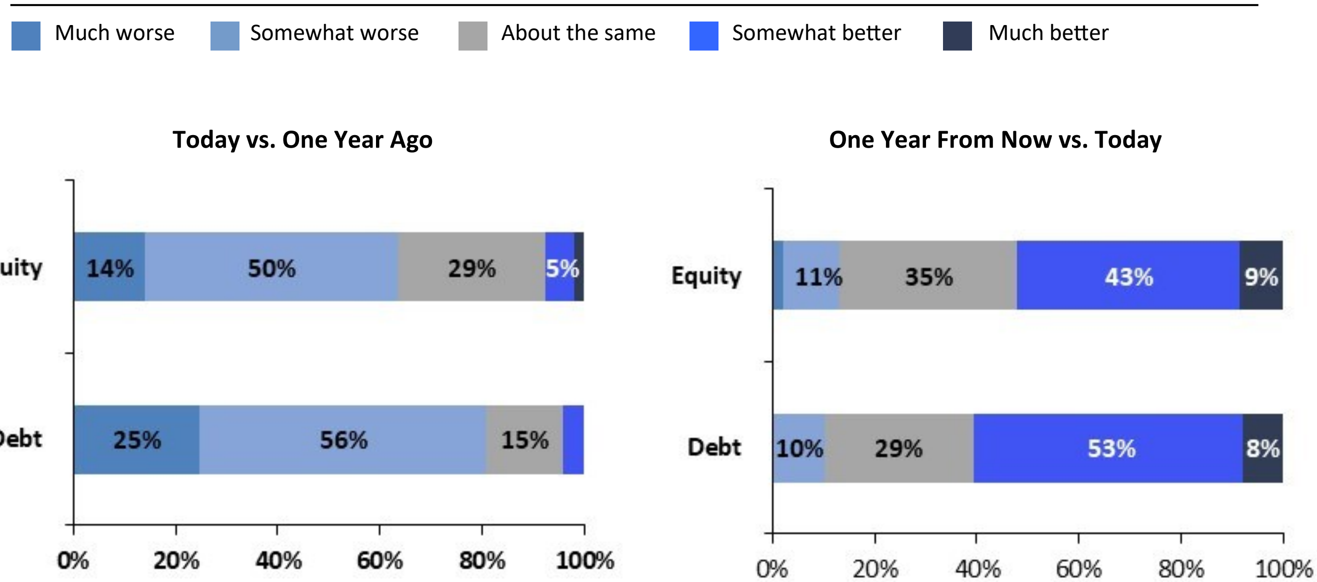
"The money supply in capital markets has increased in the last 90 days. We call this a crisis with liquidity, as opposed to the Great Recession, which was a crisis without liquidity. Whether it is the lenders or new fund vehicles which have formed, the dry powder has to be put to work. A lot of this capital has found its way into commercial real estate."

"Institutional investors are engaged where there's an existing relationship. Investors who are new to a vehicle can't underwrite a new investment."

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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