The Real Estate Roundtable Sentiment Index

Fourth Quarter 2020

The Real Estate Roundtable

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The Real Estate Roundtable is pleased to announce the results from the Q4 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 Q4 2020 Real Estate Roundtable Sentiment Index registered a score of 44, an increase of two points from the third quarter of 2020. Respondents continued to express optimism about future conditions, and many noted increasingly positive trends in their own portfolios. Participants from the hospitality and retail sectors were understandably less optimistic, but felt market dynamics were strong enough that successful recoveries were possible.

- Respondents referenced stronger markets for industrial and multifamily properties, while retail and hospitality properties were perceived as challenging in this environment. Dynamics in the office sector remain uncertain for most participants as work from home policies have created an uncertain future operating environment.

- Lower leverage and continued forbearance have combined to allow owners to retain their positions, despite distress within their portfolios. As a result, owners are resistant to realizing discounted asset prices while buyers are seeking discounts as steep as 30% within the hospitality industry.

- Most respondents cited accessible capital markets for high quality assets, and an increase in debt as well as equity availability. Many also noted the real estate market in general has lower levels of leverage than seen in the last downturn.

[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 2020 Real Estate Roundtable Sentiment Index registered a score of 44, an increase of two points from the third quarter of 2020. Respondents continued to express optimism about future conditions, and many noted increasingly positive trends in their own portfolios. Participants from the hospitality and retail sectors were understandably less optimistic, but felt market dynamics were strong enough that successful recoveries were possible.

"We live in a world with an excess of political noise and pandemic uncertainty. Everything has taken a toll on the psyche. The markets will be where they are today in November and December. The development and availability of a vaccine is the key to any return to mental health and active business."

"The worst-case real estate scenarios did not materialize. We have stable capital markets. Nevertheless, we expect a slow and prolonged recovery."

"The market is hopeful of another stimulus package. Will people be able to meet their income gaps without another round of stimulus? It's wait and see."

"The good news is, when valuation adjustments are concluded, the open-ended funds will be back in 2021."

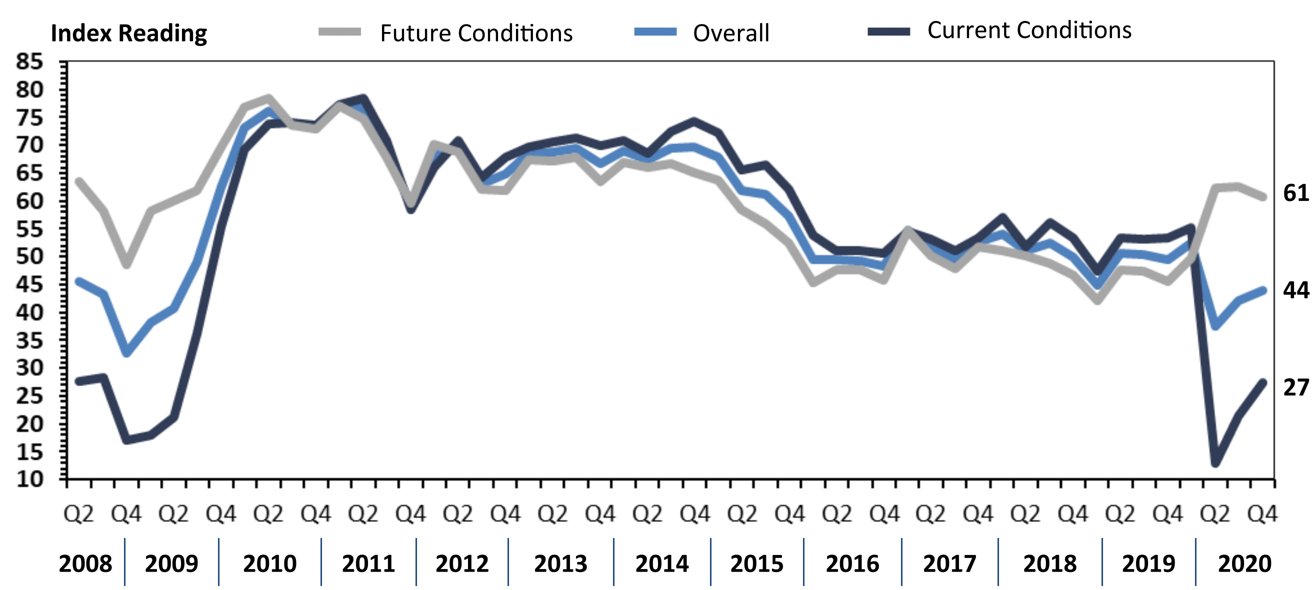
"The U.S. real estate market is very much a tale of multiple cities. Also, not every asset class is performing the same way. Retail and hospitality are highly challenged. Single family residential, multifamily, and industrial-flex are holding up well."

"It's a market of haves and have nots; this is always the case but particularly today given the pandemic. What has changing permanently and what is going back to normal eventually? We're spending a lot of time thinking about this and gathering information to get clarity and conviction around concepts."

"From a development perspective, anything you get entitled today which can start construction through 2022 will be delivered into a market which has a pretty strong demand factors, so we are working to keep all of our development pipeline moving forward."

Exhibit 1

The Real Estate Roundtable Sentiment Index



General Conditions
(continued)

Respondents referenced stronger markets for industrial and multifamily properties, while retail and hospitality properties were perceived as challenging in this environment. Dynamics in the office sector remain uncertain for most participants as work from home policies have created an uncertain future operating environment.

"Everyone is looking at office; what's going to happen and what percentage of staff will remain in a hybrid or full-time work from home model? We believe in the short-term, the office sector will come under pressure. Effective rents are probably, on a national basis, going to be in decline for a while."

"Office will see a decrease in demand going forward. The work from home phenomenon will continue and then employers have a choice: give more space to their employees, or allow a continued work from home program and decrease their office footprint."

"The office sector is the most confusing and confounding on how you have a vision for its future. It may be one of the sectors that changes the most. It's been decades of no change, other than a gradual move toward denser spaces and "creative office" meaning more creature comforts. So now, what is the health crisis pushing change. There will be a trend where companies have to separate themselves in terms of physical space so people want to come back to the office."

"You can't create or maintain culture with everyone working from home."

"What percentage of the workforce stays home on a permanent basis, ten to fifteen percent? Even this low number would cause a significant change in the office business. There is also a need for square foot expansion on a per person basis, but by the time this process is executed on, we'll likely have a vaccine and it won't be as much of a priority."

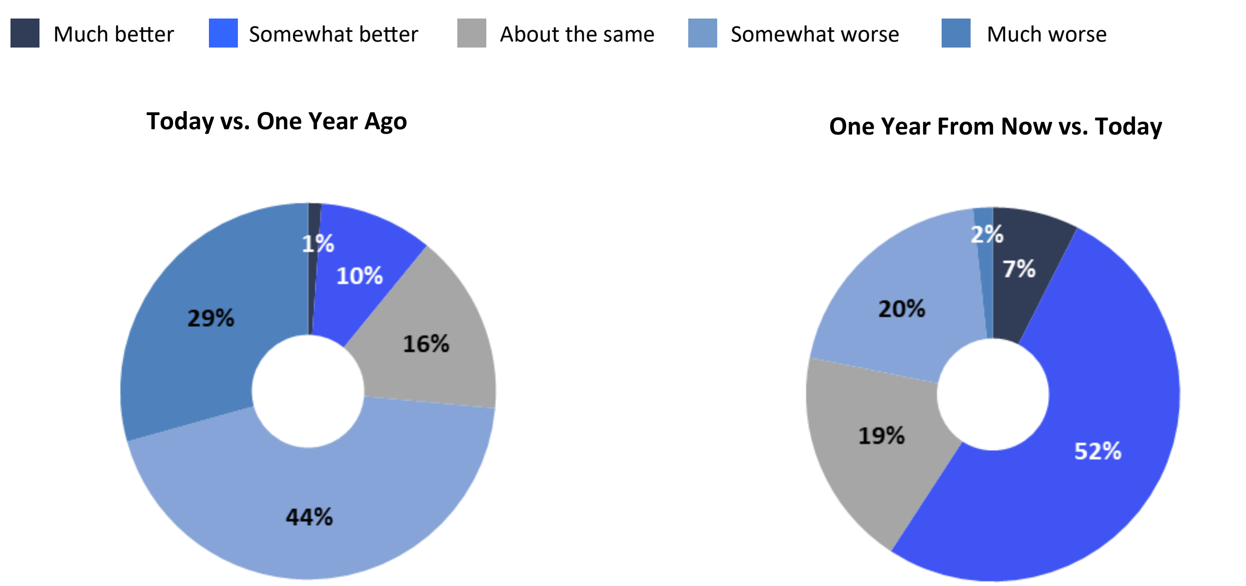
"We feel pretty strongly that suburban office buildings are going to be the relative winners while core CBD will be the losers. We believe people will want suburban nodes with urban characteristics, but with less density."

"Market recovery is going to be very choppy and a function of asset class and the election. If there are questions around the legitimacy of the election results, regardless of who wins, there will be major stress in the big cities."

Exhibit 2

General Market Conditions

% of respondents



Asset Values

Lower leverage and continued forbearance have combined to allow owners to retain their positions, despite distress within their portfolios. As a result, owners are resistant to realizing discounted asset prices while buyers are seeking discounts as steep as 30% within the hospitality industry.

“We expect to see distressed investment opportunities, but there’s a lull before the storm. Until there’s a better sense of where values are going to land there will be sporadic opportunities, but I don’t think there will be the level everyone wants right now.”

“I don’t think we’ll see a lot of change between now and the end of the year. Forbearance is being unwound between now and December; it’ll get resolved one way or another. Q1 will gradually see more transaction activity with valuations becoming a bit clearer. 2021 will be an exciting year for those in a position to take advantage.”

“Asset values in multifamily are down on average three to five percent, but asking prices have not corrected through the pandemic. Most owners of institutional quality assets are valuing their assets at pre-pandemic levels, despite dings to net operating income and values. Potential buyers are seeking a discount in the neighborhood of three to five percent.”

“We are seeing less velocity around transactions. There’s so much capital on the sidelines, owners don’t really need or want to sell. Buyers are seeking discounts, but owners feel like they can wait for the market to correct.”

“Of the several hospitality deals which have occurred, many saw assets trade at a discount in the 30% range. These were unique situations where the seller had a problem. The discount will retract, and the market will be in the 25% - 30% range for hospitality assets.”

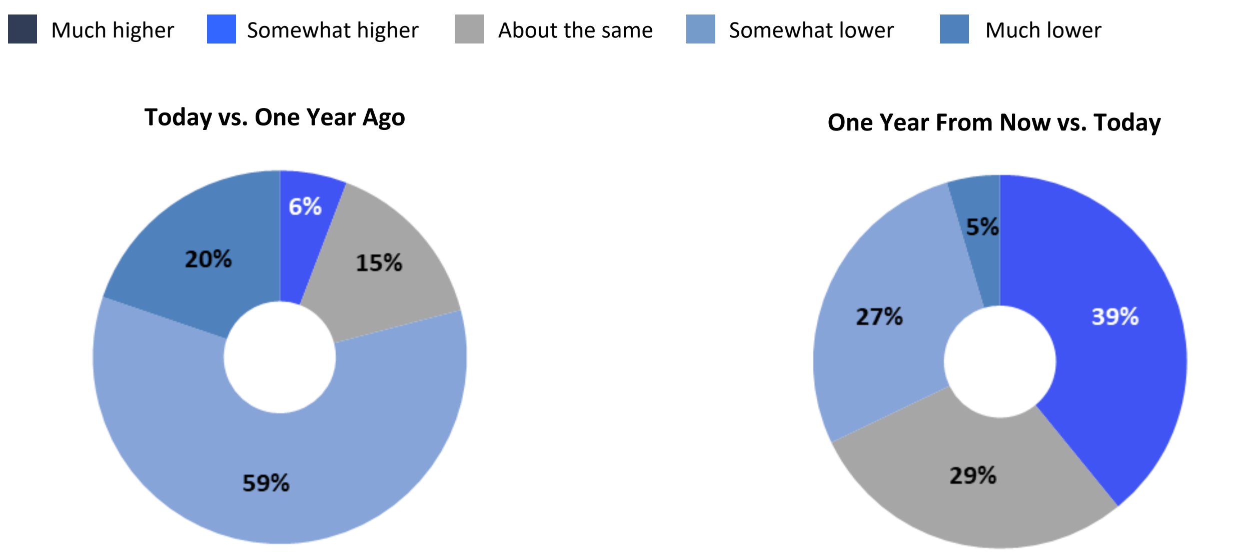
“Value declines will happen, but it’s going to be very disparate. Some property types are trading more aggressively than pre-pandemic.”

“The pandemic just doesn’t seem to go away. I think valuations of some property types have done well, industrial, data centers, and life science properties, specifically. With all property types, rent collection has improved, even within retail, which is helping values stay positive.”

Exhibit 3

Real Estate Asset Values

% of respondents



Capital Markets

Most respondents cited accessible capital markets for high quality assets, and an increase in debt as well as equity availability. Many also noted the real estate market in general has lower levels of leverage than seen in the last downturn.

"Capital markets are putting money into development for single family residential. Life science is also a beneficiary of this market. We think you'll see more entity level investment as opposed to direct investments. Capital with a long term horizon relative to an exit is prevalent."

"For a well stabilized, core asset, debt is available across the spectrum. Even the debt funds are lending again. Core debt is aggressively available. Most lenders are behind their origination targets, so they've remained aggressive. Construction lending is a little slower. Banks have been more conservative."

"Debt and equity capital are highly available. There are a lot more buyers than there are sellers right now. The buyer-seller gap will be there for the next couple of quarters, or until everyone meets in the middle."

"Debt was difficult to find at the beginning of the pandemic, but we've already seen a significant recovery. LTV's are creeping up again and modest discount values are being used instead of deep discounts. Spreads are coming down and may be back to normal for high quality properties."

"There are capital sources which are still searching for yield and if they pick the right properties, markets, and borrowers, they believe the market may come back more quickly and reward them."

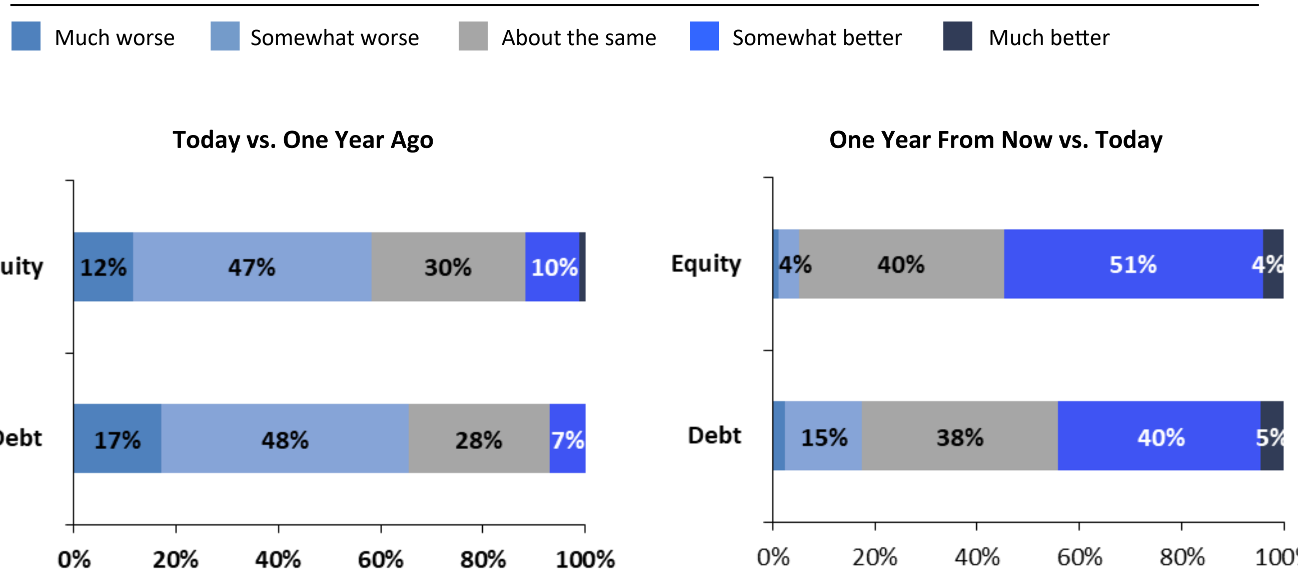
"During this downturn nothing was levered like it was last downturn."

"In the multifamily market, capital markets are choppy, but not volatile. Through July, capital transactions were off 34-40%. The pace has picked up now. Institutional investors are getting a little more comfortable with focusing on the long-term prospects for the sector, and aren't focusing as much on the short term, pandemic-related issues."

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.)

Rudy Prio Touzet
Banyan Street Capital

Alan King
Berkshire Residential Investments

Henry Chamberlain
Shelby Christensen
BOMA International

Owen D. Thomas
Boston Properties

Charles Davidson
Brookdale Group, The

Richard B. Clark
Brookfield Property Partners

Douglas Pasquale
Capstone Corporation

Robert Stern
Castle Hill Investors

Stephen Lebovitz
CBL Properties, Inc.

Mike Lafitte
CBRE

Alan Gosule
Clifford Chance LLP

Timothy G. Wallace
Community Healthcare Trust, Inc.

Steven DeFrancis
Cortland

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

Jana Cohen-Barbe
Dentons US LLP

A. William Stein
Digital Realty Trust

Jay Epstein
DLA Piper

Dan A. Emmett
Douglas Emmett, Inc.

Anthony E. Malkin
Empire State Realty Trust, Inc.

Frank G. Creamer, Jr.
FGC Advisors LLC

Peter E. Baccile
First Industrial Realty

Alex Klatskin
Forsgate Industrial Partners

Robert Hulme
Fort Worth Employees' Retirement Fund

Chaim Katzman
Gazit Group USA, Inc.

Thomas Gilbane
Gilbane, Inc.

Jonathan J. Ofer
Global Holdings Management (US)

Randall K. Rowe
Green Courte Partners LLC

Robert Ivanhoe
Greenberg Traurig LLP

Kevin A. Shields
Griffin Capital Company LLC

Theodore J. Klinck
Highwoods Properties, Inc.

Ross Perot, Jr.
Hillwood

Dean Parker
Hinshaw & Culbertson LLP

Scott F. Schaeffer
Independence Realty Trust

Guy Johnson
Johnson Capital

Geordy Johnson
Johnson Development Associates, Inc.

John Flynn
Kennedy Wilson

Conor Flynn
Kimco Realty Corporation

Ralph Rosenberg
KKR

Eric C. Resnick
KSL Capital Partners

Matthew J. Lustig
Lazard

Tim Byrne
Lincoln Property Company

Robert J. Lowe
Lowe

Hessam Nadji
Marcus & Millichap Real Estate Investment Services

Robert R. Merck
MetLife Investment Management

Kevin McMeen
MidCap Financial LLC

Charles R. Brindell, Jr.
Mill Creek Residential Trust LLC

James H. Miller
Miller Global Properties

Charles Oppler
National Association of Realtors

Julian E. Whitehurst
National Retail Properties, Inc.

Arlen Nordhagen
National Storage Affiliates Trust

Susan Givens
New Senior Investment Group

William Lindsay
PCCP

Jonathan E. Bortz
Pebblebrook Hotel Trust

Bryan McDonnell
PGIM Real Estate

Todd Everett
Principal Real Estate Investors

Peter Fass
Proskauer Rose LLP

Jerry Starkey
RE Partners International

John Jacobsson
Related Companies

Richard S. Ziman
Rexford Industrial Realty, Inc.

Daniel J. Moore
Rockefeller Group International, Inc.

JR Pearce
Sacramento County Employees' Retirement System

Robert A. Alter
Seaview Investors LLC

Marty Burger
Silverstein Properties

David Lukes
SITE Centers Corporation

Jeffrey B. Citrin
Square Mile Capital Management LLC

Benjamin S. Butcher
STAG Industrial, Inc.

Adam A. Behlman
Starwood Property Trust

John F. Fish
Suffolk

Stephen Blue
Rachel Sergi
Damian Manolis
Swift Real Estate Partners

Gregg Gerken
TD Bank

Michael A. Covarrubias
TMG Partners

Jeffrey Zabel
Tufts University—Department of Economics

Thomas W. Toomey
UDR

Gary M. Tischler
Vanbarton Group LLC

Debra Cafaro
Ventas, Inc.

Glenn J. Rufrano
VEREIT, Inc.

Gilbert Winn
WinnCompanies

Edward Peterson
Winstead P.C.

Geoff Ballotti
Wyndham Hotels & Resorts

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