

The Real Estate Roundtable Sentiment Index

First Quarter 2020



The Real Estate Roundtable



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The Real Estate Roundtable is pleased to announce the results from the Q1-2020 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 Q1 2020 Sentiment Index registered a score of 52, a three point increase over the last quarter of 2019. Respondents feel the overall economy is stable and the commercial real estate market continues to be supported by strong market fundamentals. Many respondents have stopped attempting to predict an end to this cycle as they see no apparent economic hurdles to current market stability.
- Despite respondents finding comfort with the current market climate, many are anticipating two phases of the 2020 calendar year: pre-election and post-election. Many noted that election years are notoriously unpredictable and point to a large volume of transactions already underway as platforms attempt to execute before the summer.
- Asset values remain elevated across most property types and geographies. While certain respondents suggest that asset values have room to grow, others view current pricing as being at peak levels.
- Debt and equity capital are perceived as widely available in most markets. Many respondents noted the high level of discipline they are witnessing in the debt markets on behalf of lenders. This level of discipline suggests a healthy state in the capital markets, and is a contributing factor to the continuation of the current cycle.

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 Q1 2020 Sentiment Index registered a score of 52, a three point increase over the last quarter of 2019. Respondents feel the overall economy is stable and the commercial real estate market continues to be supported by strong market fundamentals. Many respondents have stopped attempting to predict an end to this cycle as they see no apparent economic hurdles to current market stability.

“We’ve been predicting a slow down in 18 to 24 months for the last five years. With that said, I suppose we’ve only been in this phase of the cycle for five years, not ten; the first five years were still recovery.”

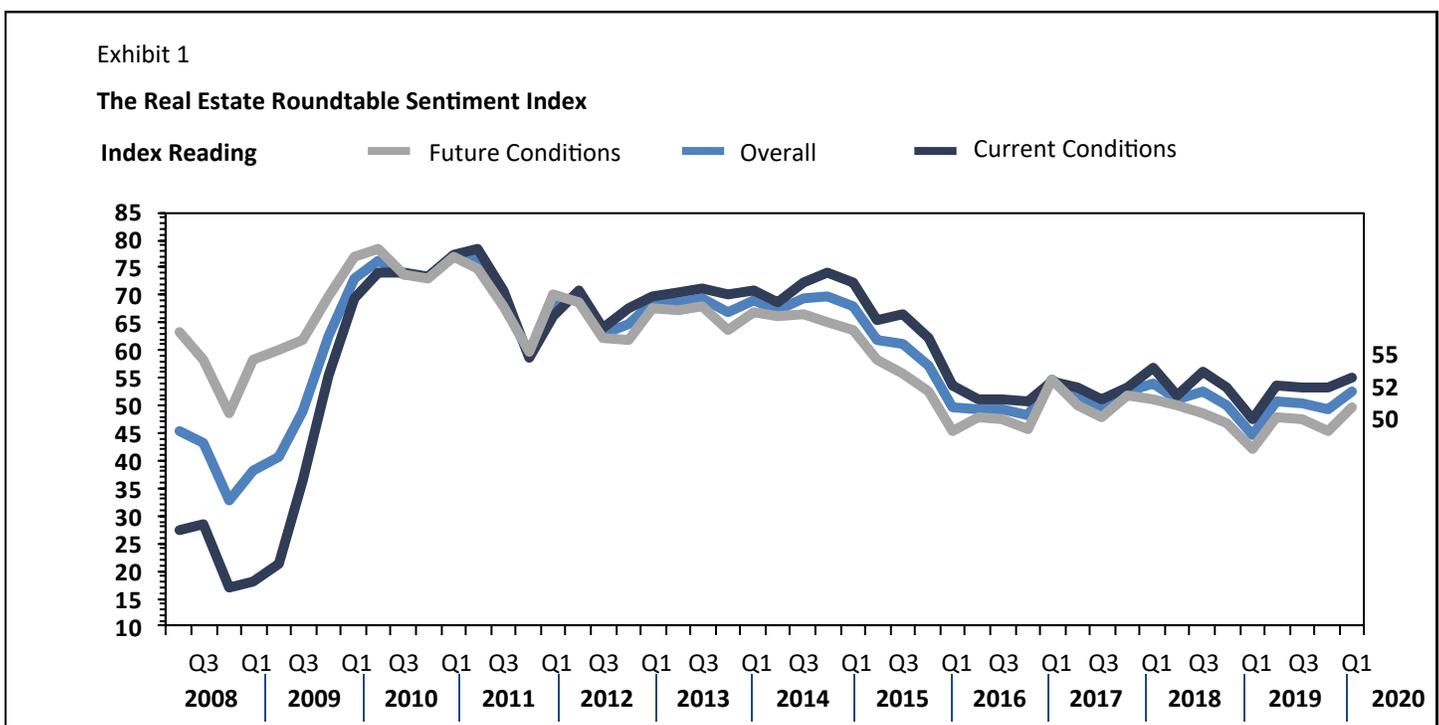
“With the caveat that we’ve been wrong for the last five years, we see more of the same. Barring geopolitical risk, we don’t see many reasons for concern. In 2007, you couldn’t tell what was going to work, now though, the market and investors are more judicious.”

“Looking forward, expansion continues into early 2021 in the absence of some exogenous event. That said, the markets almost seem to be shrugging off large geopolitical situations and assuming cooler heads will prevail. Steady as it goes.”

“We are very bullish on the market; we’re at a 50-year low in unemployment. Jobs drive real estate. There is only very limited overbuilding too. On a broad basis, there’s not excess supply. Other than malls, all signs point to a healthy market.”

“The election is causing people to accelerate their thinking about what they want to do this year. They want to be prepared for the year and believe the election has the potential to disrupt markets. The smart people who are thinking ahead are trying to execute as much as possible in their pipeline early in the year.”

“We view market conditions as overall very positive, supported by record low interest rates and the ability for developers to lock in long term fixed rate, interest only loans. The logical nervousness point is when interest rates push back up.”



General Conditions

(continued)

Despite respondents finding comfort with the current market climate, many are anticipating two phases of the 2020 calendar year: pre-election and post-election. Many noted that election years are notoriously unpredictable and point to a large volume of transactions already underway as platforms attempt to execute before the summer.

“We see a great deal of opportunity with data centers and senior living properties. With data centers we think technology and the internet are ubiquitous and real estate which services these has become a necessity. With senior living, we’re seeing a natural demand increase as the boomer population ages into the properties.”

“The market is wide open right now. It normally is in the first quarter, but due to the volatility we expect in July, issuers are getting out. There’s so much money already transacting.”

“If you put a new class A property on the market with institutional tenants like Apple or Sales Force you will have a feeding frenzy. If you have an older building with multiple tenants, it’s a different story. We’re modernizing even relatively new buildings. There’s an arms race of amenities. Making the necessary trades in a building to provide amenities wont kill you, but they erode your returns.”

“Any other cycle, people would be saying, ‘We shouldn’t do more developments right now.’ What people learned in this cycle though, is that new buildings will still lease up.”

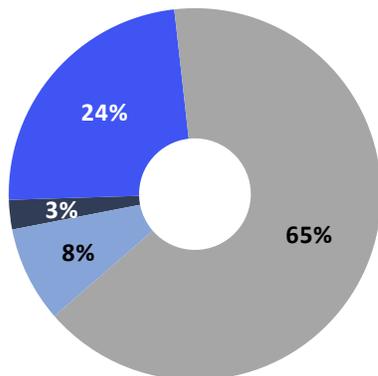
Exhibit 2

Perspectives on Real Estate Market Conditions

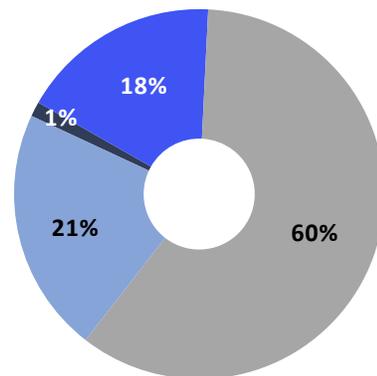
% of respondents

■ Much worse ■ Somewhat worse ■ About the same ■ Somewhat better ■ Much better

Today vs. One Year Ago



One Year From Now vs. Today



Asset Values

Asset values remain elevated across most property types and geographies. While certain respondents suggest that asset values have room to grow, others view current pricing as being at peak levels.

“Pricing has continued to increase over the last few years and we expect pricing to slightly increase this year.”

“We think pricing has just a little room to run, we may look back and see this was the peak. Investments are priced close to perfection. If you’re going to buy something, you don’t have a lot of room for things to go wrong.”

“Pricing is too high right now. The internet was used twenty percent more last year and visits to retail assets were down twenty percent. Retail is deteriorating right in front of our eyes and we’re not sure how to price it. Other property types seem to be facing headwinds. Office property transactions haven’t seen as many bidders and we believe pricing is one factor.”

“Construction pricing has trended up. Mostly due to labor shortages, but also due to the great amount of development happening. We see increased activity with home building in Las Vegas, government contracts in Hawaii or New York, and a tremendous amount of development along the gulf coast. Combine this development activity with restrictions on migrant workers and the result is increased pricing.”

“If you take a traditional multi-tenant building to market, you see tenants taking a measured, thoughtful approach. You have an A building, but buyers are coming in and saying, ‘The elevators are 15 years old, and the amenity space was good when it was built, but now it needs updating.’ They want credits against these factors. There’s a buyer attempt to build in capital. It makes it hard to sell buildings based on your expectations.”

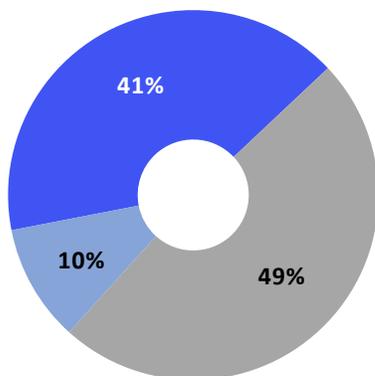
Exhibit 3

Real Estate Asset Values

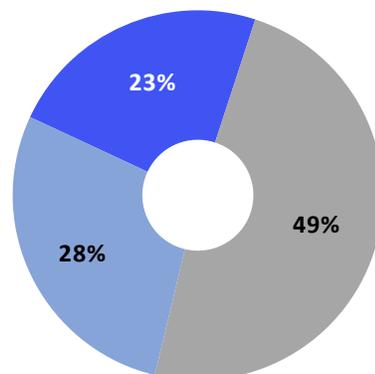
% of respondents

■ Much lower ■ Somewhat lower ■ About the same ■ Somewhat higher ■ Much higher

Today vs. One Year Ago



One Year From Now vs. Today



Capital Markets

Debt and equity capital are perceived as widely available in most markets. Many respondents noted the high level of discipline they are witnessing in the debt markets on behalf of lenders. This level of discipline suggests a healthy state in the capital markets, and is a contributing factor to the continuation of the current cycle.

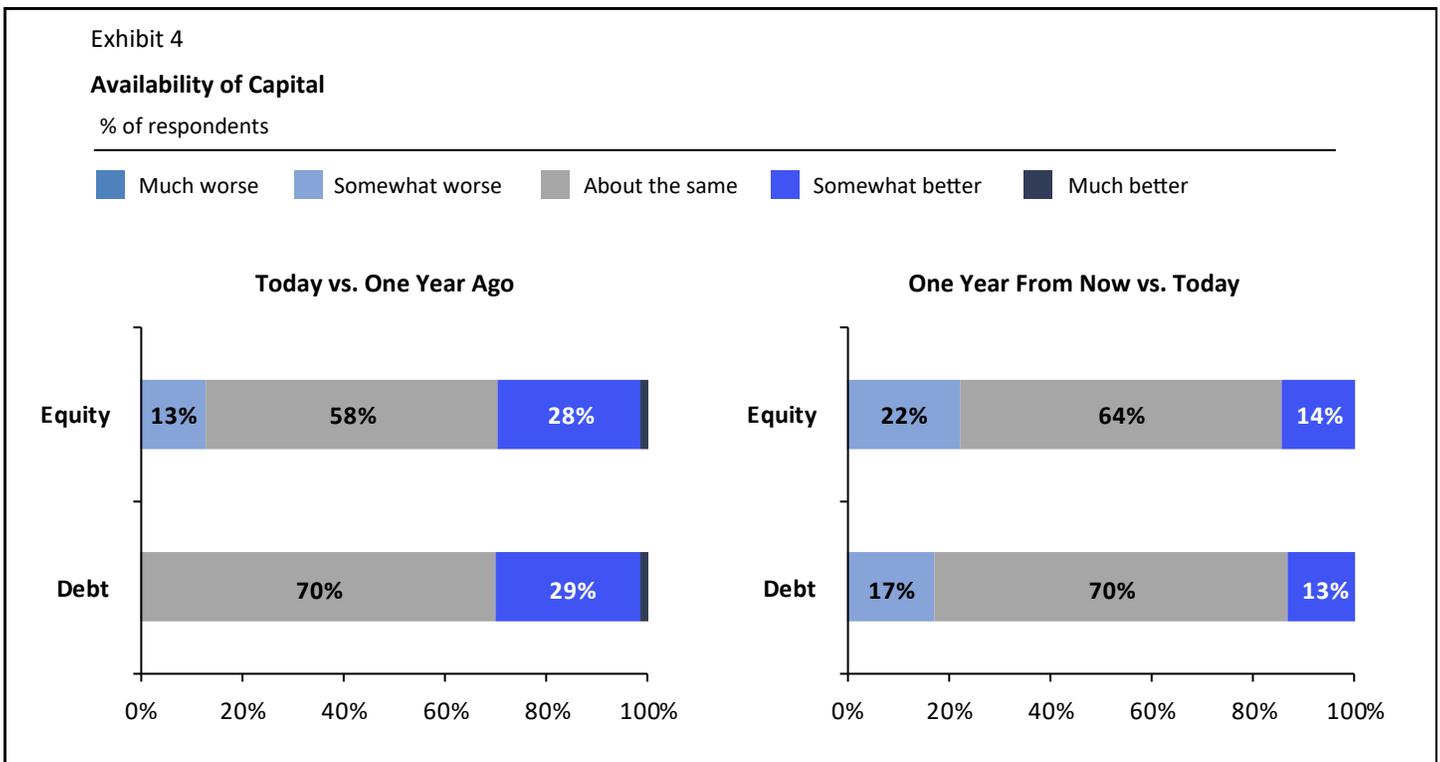
“For most of the markets, debt has been easy to obtain. What we find more interesting is how large institutions are trying to find new ways to deploy the massive amounts of equity capital they’ve acquired. We’ve never seen commingled funds as large as some of these players have amassed.”

“We deal with banks for our debt capital and we have found them to be more discerning relative to their ground-up development exposure. We feel they’ve been very disciplined; they’ve been in check with demand.”

“We have just finished raising capital for a new fund and it was the hardest raise we’ve ever executed. The number one question investors had for us was, ‘Why us instead of one of the larger fund managers?’ Investors were hesitant, even after being offered preferential terms.”

“Debt is widely available across all product types. From mezzanine loans to CMBS, there’s a product for everything. You’d think we were witnessing increased competition and therefore a relaxing of underwriting, but actually, we’re seeing the debt markets operate with extreme discipline.”

“We feel there is plentiful supply of both debt and equity capital. The hard part is satisfying the return expectation that some equity capital is seeking.”



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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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