The Real Estate Roundtable Sentiment Index

First Quarter 2021

The Real Estate Roundtable

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The Real Estate Roundtable is pleased to announce the results from the Q1 2021 Real Estate Roundtable Sentiment Survey. The quarterly survey is the commercial real estate industry's comprehensive measure of senior executives' confidence and expectations about the commercial real estate market environment. Conducted by Ferguson Partners 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
3. Real estate asset values

Topline Findings

- The Q1 2021 Real Estate Roundtable Sentiment Index registered a score of 59, an increase of 15 points from the fourth quarter of 2020. Respondents continued to express optimism about future conditions; however, the outlook is highly dependent upon asset class and portfolio mix.
- The industrial and multifamily sectors were cited as having been the most resilient to the global pandemic, and best positioned to emerge successful in a post-pandemic environment. Retail and hospitality sectors continue to face challenges stemming from public health measures and government restrictions.
- Low transaction volume has resulted in limited visibility into asset valuations over the past year. Among the trades that have occurred, industrial assets have seen their values increase, mirroring the market overall, while multifamily properties are trading at a slight discount to their pre-COVID values.
- Capital flows within the real estate market are following the sector-specific impacts of the pandemic. Most respondents cited accessible capital markets for high quality assets, particularly in the industrial and multifamily spaces. However, out-of-favor property types and strategies with leasing and/or development exposure are finding it more difficult to secure institutional equity and financing.

[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 Q1 2021 Real Estate Roundtable Sentiment Index registered a score of 59, an increase of 15 points from the fourth quarter of 2020. Respondents continued to express optimism about future conditions; however, the outlook is highly dependent upon asset class and portfolio mix.

“The overall market view varies depending on what asset classes you are in. For example, industrial is as good as it has ever been, with strong buyer demand. The hotel business is at the opposite end of the spectrum.

“The market today is more interesting than it has been at any point in my career. Certain sectors are hotter than they have ever been in terms of pricing and liquidity. On the other end, you have sectors that have completely bombed out where prices have fallen significantly, with very little liquidity.

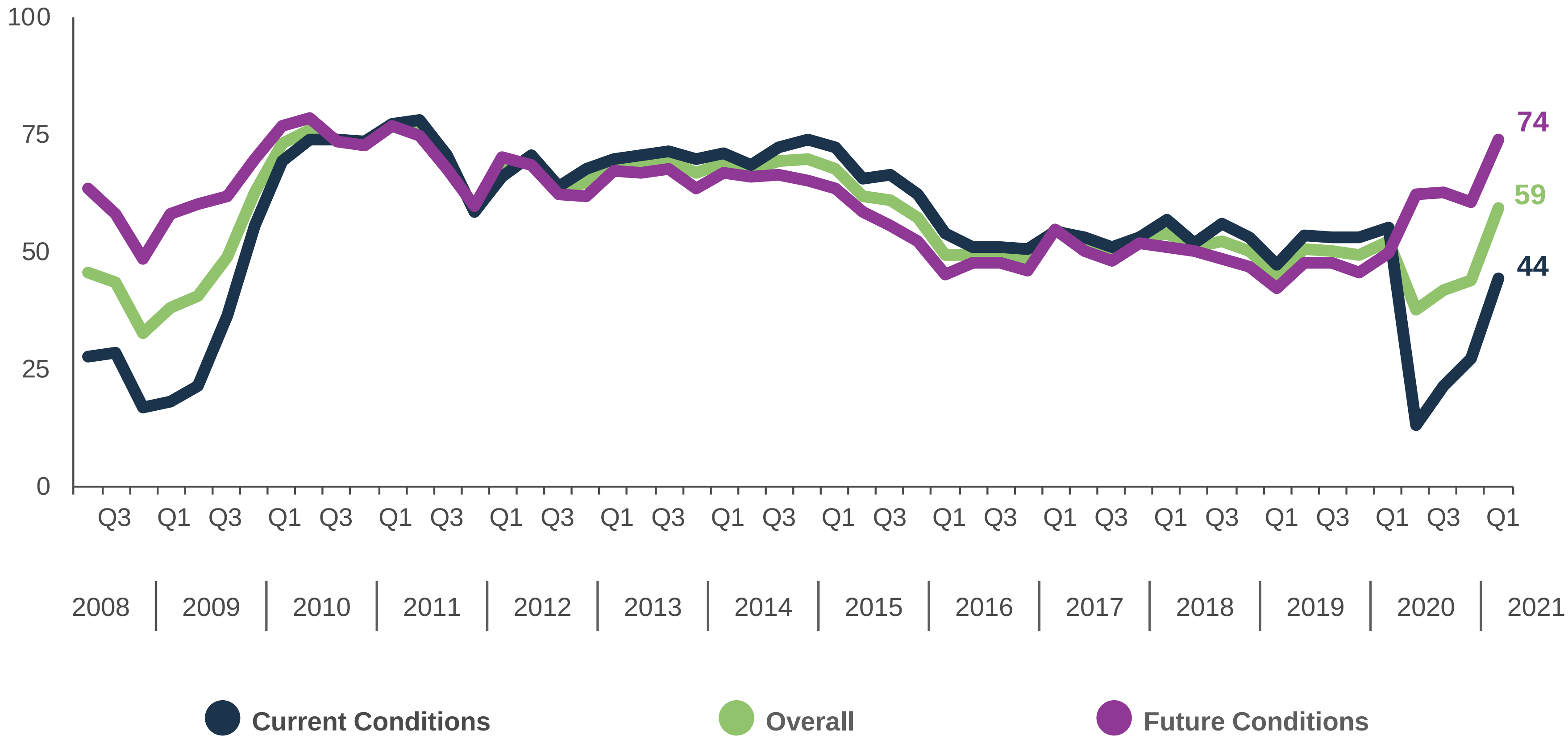
“It’s really a tale of two worlds. The “haves” are industrial and multifamily and “have nots” are retail, hotel, and office to some extent. For student housing, the impact hasn’t been as dramatic – we’re only down about 3%.

“In the US, we’ve been much more cautious than in the past. We are waiting for a more opportunistic future in office opportunities; we don’t think it’s time to buy office. We are very bullish on multifamily. We believe in the urban city and when the dust settles, we think people will return to the office (probably after Labor Day 2021). On the industrial side, it’s a feeding frenzy. People have capital and they aren’t putting it in office, so a lot is going into industrial.

“Since summer, perceptions from an asset class standpoint is that it’s a market of “haves” and “have nots.” In terms of the “haves,” industrial, which paused in March, is now back on track with tighter leasing activity. Multifamily is also incredibly popular, which ties into debt financing – it is very resilient in terms of delinquency rates even during the pandemic. The “have nots” – retail and hospitality – have only gotten worse. Office sits in the middle.

Exhibit 1

The Real Estate Roundtable Sentiment Index



General Conditions (continued)

The industrial and multifamily sectors were cited as having been the most resilient to the global pandemic, and best positioned to emerge successful in a post-pandemic environment. Retail and hospitality sectors continue to face challenges stemming from public health measures and government restrictions.

“The Impact of COVID is still at the top of the mind. While hotels and retail have been hit hard, the delivery of goods/services to the home by ecommerce has been huge. It’s a tale of two markets depending on your asset class. In senior housing we have locked down to protect tenants, making it hard to show new units and hard to project occupancy when seniors are already concerned about their health and don’t want people coming in.

“In the industrial space, I think we are in the process of overbuilding. The Amazon effect on the demand is undersold. If they lift up on the accelerator a little, it will have a big effect; I think we’ll see an oversupply.

“Nobody is in the office – we are about 10% occupied (this picked up a bit in the fall). At this point in time, most tenants are waiting on the vaccinations to make their next decision, so we expect to stay at this level of occupancy for the near future. Tenants who do have leases are paying rent. We have collected 99% of our office rents even though most are still working from home.

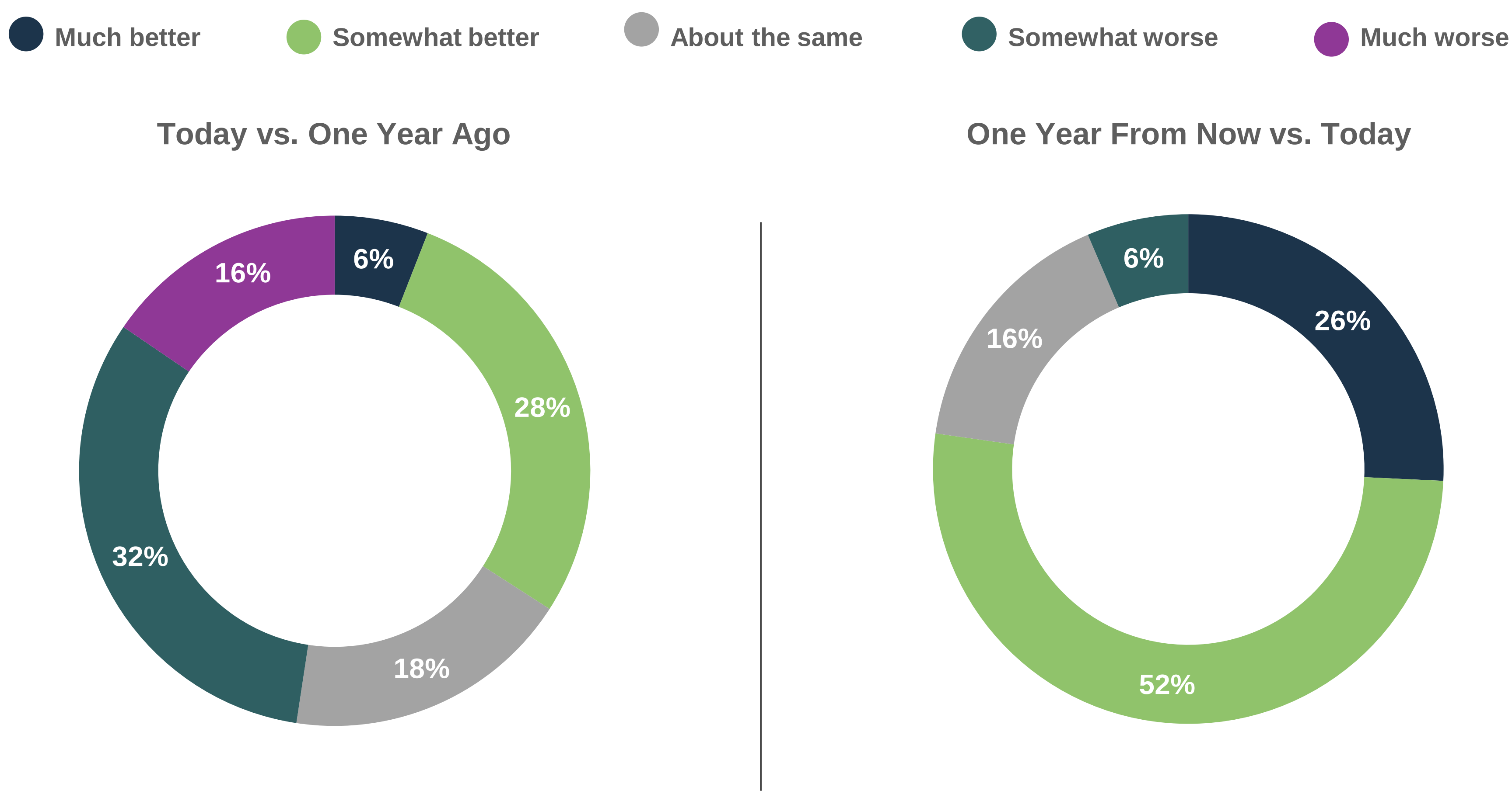
“Hospitality and retail are challenging; retail was challenging before COVID-19 and is more challenging now. Hospitality is also getting hammered. Another challenging sector is urban residential. However, suburban residential has been strong particularly in Austin, TX; Westchester, VA; and greater Chicago. The office market is difficult – with leases people can't get out of, buildings are 95% leased but fully vacant, so it’s hard to get visibility on what is going on there. Industrial/bio med/data centers have all performed very well because capital is looking for yield in a low bond market.

“We’re in retail and grocery-anchored shopping centers, and we are still in recovery mode. Certain locations still have restrictions on in-person dining, which has been a challenge, but overall, things are recovering since the beginning of the pandemic. Today, we are collecting over 90% of rents, up from earlier in the pandemic, when we were closer to 70% of rents.

Exhibit 2

General Market Conditions

% of respondents



Asset Values

Low transaction volume has resulted in limited visibility into asset valuations over the past year. Among the trades that have occurred, industrial assets have seen their values increase, mirroring the market overall, while multifamily properties are trading at a slight discount to their pre-COVID values.

"Over the course of 2020 residential asset values probably declined ~5% but the bigger impact in 2020 was fewer trades as capital wanted to sit on the sidelines. We are seeing bids at 8-10% below pre-COVID levels.

"There is a wide disconnect between public and private markets. Typically, grocery-anchored shopping centers see relatively high levels of trading volume, but there has been a lack of trades since the start of the pandemic. However, we are beginning to see more activity. High quality assets are still trading at 4-5 cap rate range, where mid-tier properties are trading in the 6-7 range.

"I am stunned at the downward pressure on cap rates across multi-industrial and self-storage properties. Just when you thought they couldn't go any lower, they go lower – especially for quality stabilized products.

"As the Q4 figures come in, I think we will capital value flat to slightly increased from quarter to quarter for the market as a whole.

"For those transactions that have happened, valuations have held up will for stable, core properties that are well-leased and have extended cash flow, the valuations have held up well. What investors are shying away from is anything with leasing and/or development risk. We have seen few to no trades in the value-add/opportunistic space.

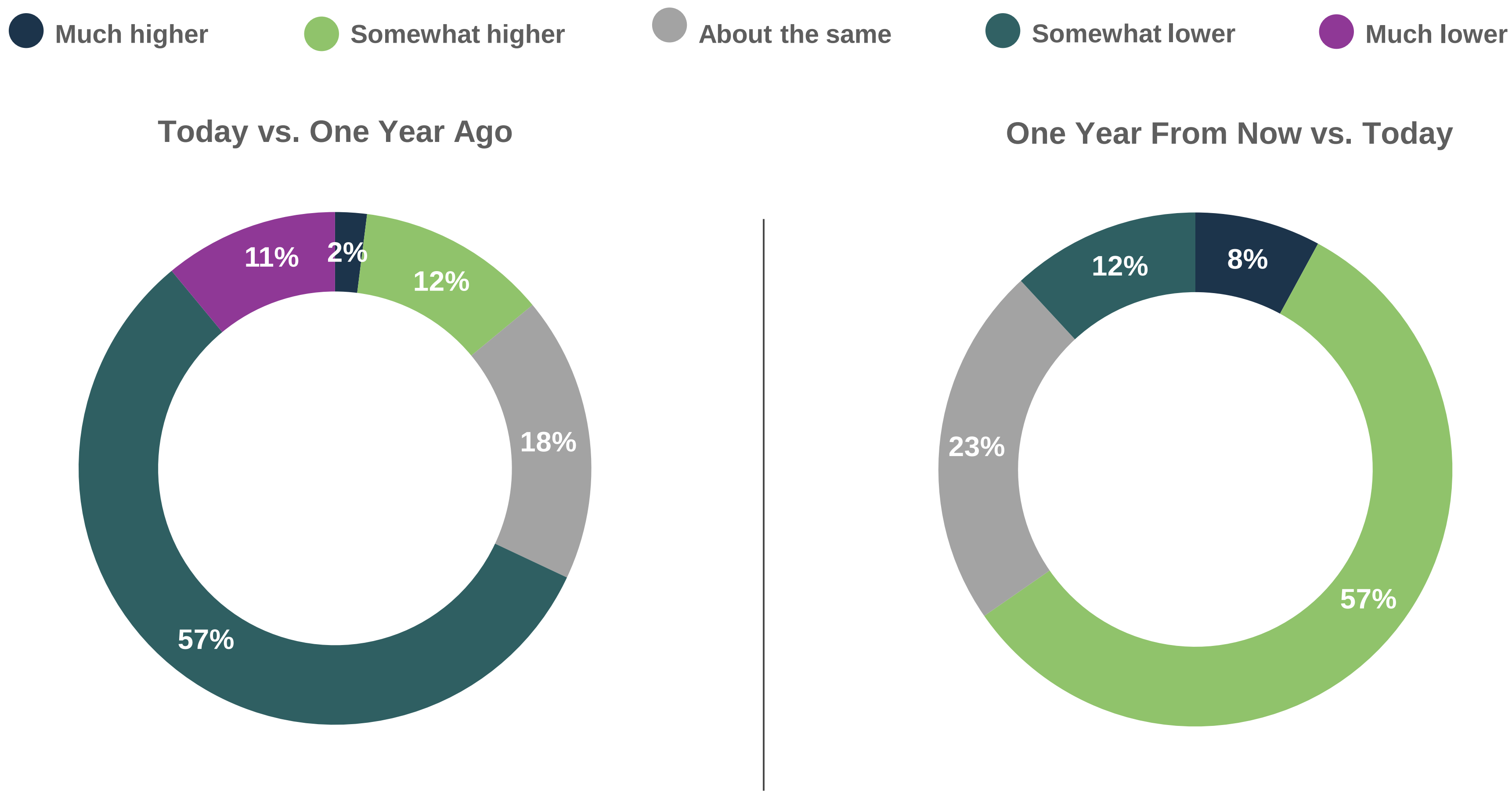
"Industrial is priced to perfection and supported by low debt. Multifamily is priced appropriately but is also influenced by the amount of agency debt in the space, which has kept it going – there was a 5-10% downward adjustment from pre-COVID pricing. Industrial has gone up for sure. Office – who knows? Nothing is trading – bidders want significant discounts and sellers don't want to sell.

"Industrial and bio med prices are high. Some multifamily markets are holding up well but it's very location-dependent. Retail and hospitality prices are really strained – people are now thinking about repurposing these assets.

Exhibit 3

Real Estate Value Assets

% of respondents



Capital Markets

Capital flows within the real estate market are following the sector-specific impacts of the pandemic. Most respondents cited accessible capital markets for high quality assets, particularly in the industrial and multifamily spaces. However, out-of-favor property types and strategies with leasing and/or development exposure are finding it more difficult to secure institutional equity and financing.

“Equity investors are really interested in multifamily. They took a pause in 2020 for a few reasons, but traditional equity investors have come back this year and are underwriting as they always have. I don’t expect that equity capital will be a significant governor for residential.

“For industrial and multifamily, debt is consistently available for good assets – everything is pricing within 3% right now. For office, debt availability is based on role/sponsorship and view of the micro market. For retail and hospitality, debt is more opportunistic.

“Equity is scarce in the retail market. I think people have generally shied away from the space and are waiting to see what re-opening looks like.

“In certain sectors where there is more leasing exposure or development, debt capital is still available, but pricier and with more conditions than in sectors without this type of exposure. Where the loan-to-value range is not being pushed way up, there is a lot of cheap debt available, as cheap as it has ever been.

“Capital is definitely available and has opened back up for more stabilized projects. We are having discussions related to construction projects that we were not having three months ago. There is a lot of pent-up capital ready to be deployed, but no one is ready to take the risk. At the end of the day, in this current market, it is all about risk avoidance.

“The major lender market (i.e., commercial banks) is conservative and only lending to blue-chips rather than projects. Undercapitalized/non blue-chips are having a harder time. For secondary lending and mezzanine debt, you can get it at a price but it’s the quality of the debt that’s important.

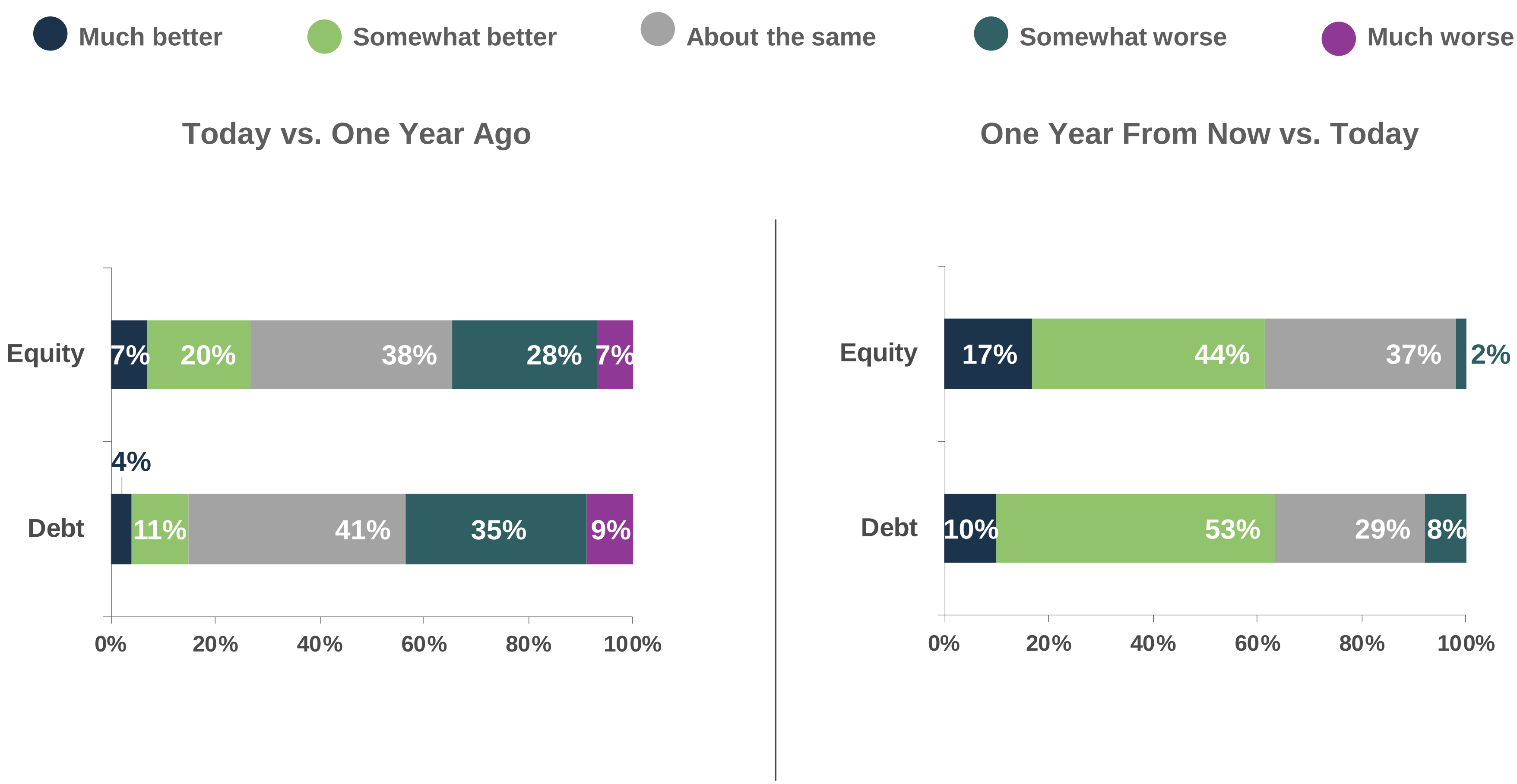
“We are still seeing allocations from institutional investors to real estate even as they are figuring out valuations and price adjustments. With interest rates so low, they are trying to determine where the best place is for their capital, and real estate is still attracting capital.

“There is plenty of debt available. If it’s a value-add office asset the market gets thinner, but overall debt is available.

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.)

Gunnar Branson
AFIRE

Tom Marchant
AIMCO

Christoph Donner
Allianz Real Estate of America

Matthew Kaplan
Almanac Realty Investors

Alexandra S. Glickman
Arthur J. Gallagher & Co.

Joe Marconi
Bain Capital Real Estate

Alan King
Berkshire Residential Investments

Henry Chamberlain
Shelby Christensen
BOMA International

Owen D. Thomas
Boston Properties

Charles Davidson
Brookdale Group, The

David J. Adelman
Campus Apartments

Douglas Pasquale
Capstone Corporation

Greg Stapley
CareTrust REIT

Robert Stern
Castle Hill Investors

Mike Lafitte
CBRE

Alan Gosule
Clifford Chance, LLP

Nelson Mills
Columbia Property Trust

Timothy G. Wallace
Community Healthcare Trust, Inc.

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

Jay Epstein
DLA Piper

Dan A. Emmett
Douglas Emmett, Inc.

James B. Connor
Duke Realty Corporation

Daniel M. Neidich
Dune Real Estate Partners LP

Mark Garside
Jodie W. McLean
EDENS

Anthony E. Malkin
Empire State Realty Trust, Inc.

Brian Finerty
Equity International

Frank G. Creamer, Jr.
FGC Advisors, LLC

Peter E. Baccile
First Industrial Realty

Alex Klatskin
Forsgate Industrial Partners

Chaim Katzman
Gazit Group USA, Inc.

Participants (continued)

Jonathan J. Ofer
Global Holdings Management (US)

Randy Rowe
Green Court Partners

Robert Ivanhoe
Greenberg Traurig, LLP

Kevin A. Shields
Griffin Capital Company, LLC

Theodore J. Klinck
Highwoods Properties, Inc.

Thomas J. Hutchison, III
Hutchison Advisors, Inc.

William S. Janes
Iron Point Partners LLC

Guy Johnson
Johnson Capital Group, Inc.

Geordy Johnson
Johnson Development Associates, Inc.

John Flynn
Kennedy Wilson

Conor Flynn
Kimco Realty Corporation

Ralph Rosenberg
KKR

Eric C. Resnick
KSL Capital Partners

Jeff Jacobson
LaSalle Investment Management

Matthew J. Lustig
Lazard

Phillip Belling
LBA Realty

Denis Hickey
Lendlease Americas, Inc.

Michael McNamara
Manulife

Hessam Nadji
Marcus & Millichap Real Estate Investment Services

Robert R. Merck
MetLife Investment Management

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

James H. Miller
Miller Global Properties

Thomas F. Moran
Moran & Company

Susan Givens
New Senior Investment Group

John Z. Kukral
Northwood Investors

Jonathan E. Bortz
Pebblebrook Hotel Trust

Bryan McDonnell
PGIM Real Estate

Eugene F. Reilly
Prologis

Peter Fass
Proskauer Rose LLP

William Pettit
RD Merrill Company

Jerry Starkey
RE Partners International

Participants (continued)

Sumit Roy
Realty Income Corporation

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

Christa Dommers
Seyfarth Shaw, LLP

Brandon Shorenstein
Shorenstein Properties

Marty Burger
Silverstein Properties

David Lukes
SITE Centers Corporation

Jana Cohen-Barbe
SNR Denton, LLP

Jeffrey B. Citrin
Square Mile Capital Management, LLC

Benjamin S. Macfarland, III
SROA Capital

Benjamin S. Butcher
Stag Industrial, Inc.

Randall K. Rowe
Starwood Capital Group

John F. Fish
SUFFOLK

Daniel P. Hansen
Summit Hotel Properties

Greg Winchester
Summit Investors, LLC

Rachel Sergi
Swift Real Estate Partners

Tomas Schoenberg
Swig Company, The

Michael Covarrubias
TMG Partners

Thomas W. Toomey
UDR

Gary M. Tischler
Vanbarton Group, LLC

Debra A. Cafaro
Ventas, Inc.

Glenn J. Rufrano
VEREIT, Inc.

Tom Mulvin
Walker Noland
Virginia Retirement System

Jeff Quicksilver
Walton Street Capital

Tiffany English
Ware Malcomb

Kara McShane
Charles Meyers
Wells Fargo

Gilbert Winn
WinnCompanies

Edward Peterson
Winstead P.C.

Contact

Please direct all inquiries regarding this study to:

Erin Green

Managing Director
Ferguson Partners
+1 (312) 893-2359
egreen@fergusonpartners.com