# The Real Estate Roundtable Sentiment Index

Second Quarter 2021

The Real Estate Roundtable

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The Real Estate Roundtable is pleased to announce the results from the Q2 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

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# Topline Findings

- The Q2 2021 Real Estate Roundtable Sentiment Index registered a score of 77, an increase of 18 points from the first quarter of 2021 and a 39-point increase over Q2 2020 (which hit an 11-year low). The speed of the economic recovery has surprised many investors, and the long-lasting impacts of the pandemic on commercial real estate markets are still far from certain.
- Industrial and multifamily assets continue to be popular with investors. Challenged sectors like hospitality and retail remain hopeful that they will be beneficiaries of ongoing, successful vaccination campaigns. Local and federal policy is now a central focus of many investors as they pay close attention to national, state, and local responses to the pandemic.
- While certain sectors have yet to fully recover to pre-pandemic pricing, very few distressed transactions were seen in the marketplace. With capital sitting on the sidelines looking for bargains, investors are now bidding up asking prices for in-demand asset classes.
- Respondents cited that debt and equity capital remains plentiful, with the real challenge being sourcing attractive opportunities to deploy it.

[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 Q2 2021 Real Estate Roundtable Sentiment Index registered a score of 77, an increase of 18 points from the first quarter of 2021 and a 39-point increase over Q2 2020 (which hit an 11-year low). The speed of the economic recovery has surprised many investors, and the long-lasting impacts of the pandemic on commercial real estate markets are still far from certain.

“The economy is recovering faster than people expected and we can feel a shift in investor sentiment on the public side into themes of economic reopening. Industrial continues to lead with excellent performance in what feels like its golden era.”

“What a difference a year makes. While there are still plenty of unknowns, COVID vaccine rollout in the U.S. and plenty of Fed stimulus means that real estate capital markets are likely to continue to be awash in capital looking for a home.

“I have not been a believer that [COVID-19] was going to change the world; people are still people. We want human interaction. This isn't going to be the death of cities. If you're not in the office, you're going to miss out. We remain optimistic about a recovery of gateway markets and urban office.

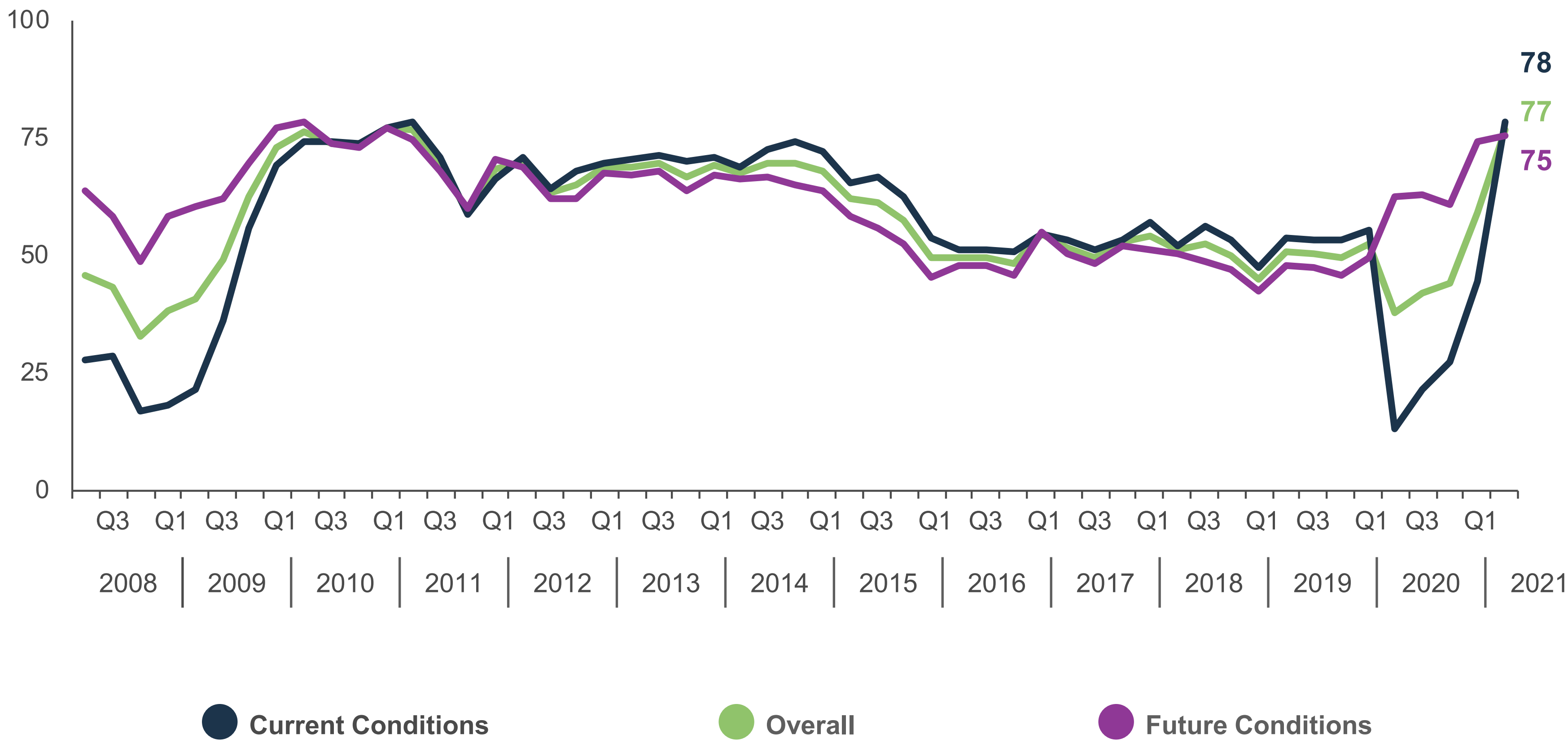
“We’ve seen that COVID has impacted consumer behavior with a migration to middle market geographies (San Francisco > Salt Lake City, NY > Miami) with people seeking less dense markets that are more affordable. People are more mobile now from a workplace perspective and are going to pay attention to things like taxes and cost of living.

“I’d call it a “K” shaped recovery, with industrial and multifamily on a strong upward trajectory and office, retail, and hospitality all much less certain. Hospitality might have the most optimism in the second half of the year.

“We are seeing recovery that is more resilient and robust in the middle markets versus gateway markets. Cities that aren’t as heavily reliant on mass transit and that are more affordable are seeing migrations. The gateway markets will come back, but the question is when?

# Exhibit 1

## The Real Estate Roundtable Sentiment Index



## General Conditions (continued)

Industrial and multifamily assets continue to be popular with investors. Challenged sectors like hospitality and retail remain hopeful that they will be beneficiaries of ongoing, successful vaccination campaigns. Local and federal policy is now a central focus of many investors as they pay close attention to national, state, and local responses to the pandemic.

"We are seeing recovery and strength across most major asset classes and a second derivative inflection with regard to the growth profile we are expecting. Recovering GDP growth here in the United States is positively impacting the fundamental drivers of real estate across the board.

"There is obviously extreme uncertainty about the future of office space, how much will be required, how it will be used and where it will be located, but it's way too early to be definitive on a conclusion. Everyone thought urban office towers were done after 9/11. Industrial was ignored for years; now nobody wants indoor malls. Everything is cyclical, let's not forget that in the moment.

"Industrial is no doubt the strongest and is the most preferred asset class by most investors, but cap rates are low. From there it's apartments and then it's a jump ball – retail or office. People are more bullish now than they were six months ago; we are working our way out of the pandemic.

"Increasing construction costs and government regulations/taxes/attitudes are big items to watch. That's where we've shifted our attention when considering future investment.

"One of the exogenous risks in real estate will be local and national political debates on the eviction process in residential rentals and business-friendly policy generally. The amount and magnitude of government intervention will have a significant impact on the viability of investing in each market. We need to ensure clear rule of law is appropriately applied and balanced and tenant-landlord rights are maintained.

"As a participant in the commercial office business, I think that it is very important that our public officials make it clear that our nation "needs to get back to [their places of] work" once we reach herd immunity.  The health of our downtowns depends on the return of the white-collar workforce to support small businesses and restaurants.

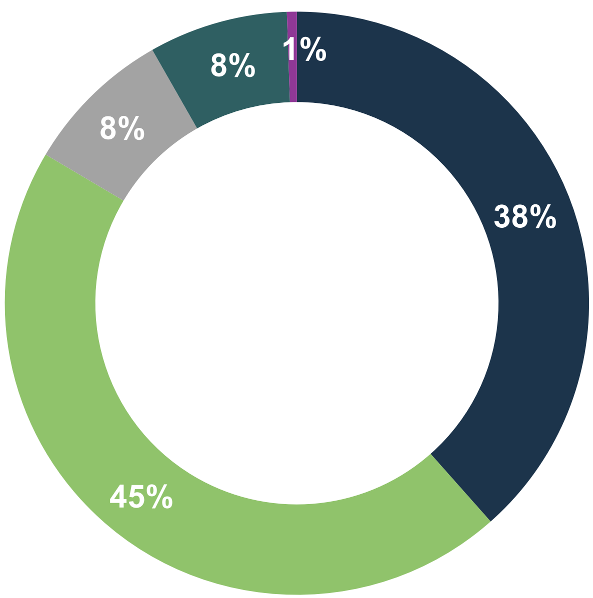
# Exhibit 2

## General Market Conditions

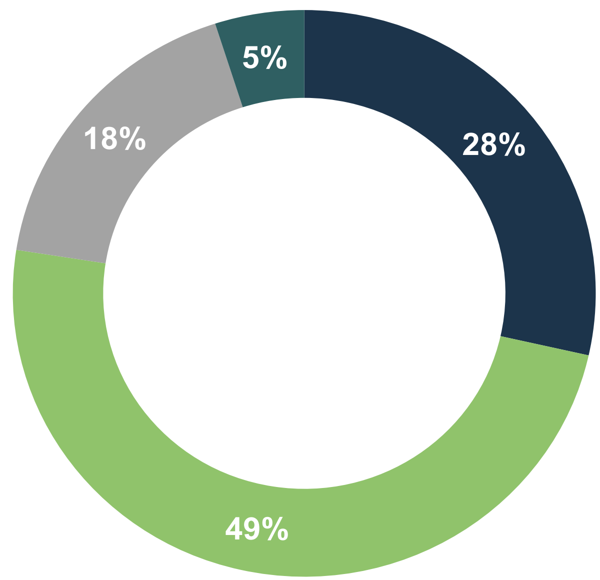
% of respondents

Much better | Somewhat better | About the same | Somewhat worse | Much worse

### Today vs. One Year Ago




### One Year From Now vs. Today



# Asset Values

While certain sectors have yet to fully recover to pre-pandemic pricing, very few distressed transactions were seen in the marketplace. With capital sitting on the sidelines looking for bargains, investors are now bidding up asking prices for in-demand asset classes.

“In healthcare, where you would expect bigger discounts, you really aren’t seeing many. Some assets may be 5% to 10% off pre-pandemic pricing but there are no real bargains to speak of.

“The situation with hotels is dire in some markets with no revenues for 12 to 15 months. It’s the only place we are seeing distress along with select retail assets.

“Looking back over a year ago, we had expectations that assets would be sold at a discount, but they weren’t, and transaction volume dried up. Now we are seeing prices at or above pre-COVID levels depending on the asset and market.

“Anybody that didn’t have to sell held on to their assets. Now we have people moving back into urban environments and we are seeing positive month-over-month rental growth. If you were able to weather the storm, prices rebounded quickly.

“Transaction activity is slower than expected and spreads are still wide. Sellers want top value and buyers want a deal. We are seeing crazy cap rates in industrial and multifamily, and rates are also ticking down in data centers and cold storage where there is still some yield. Nothing is trading in retail or office because of the wide spreads.

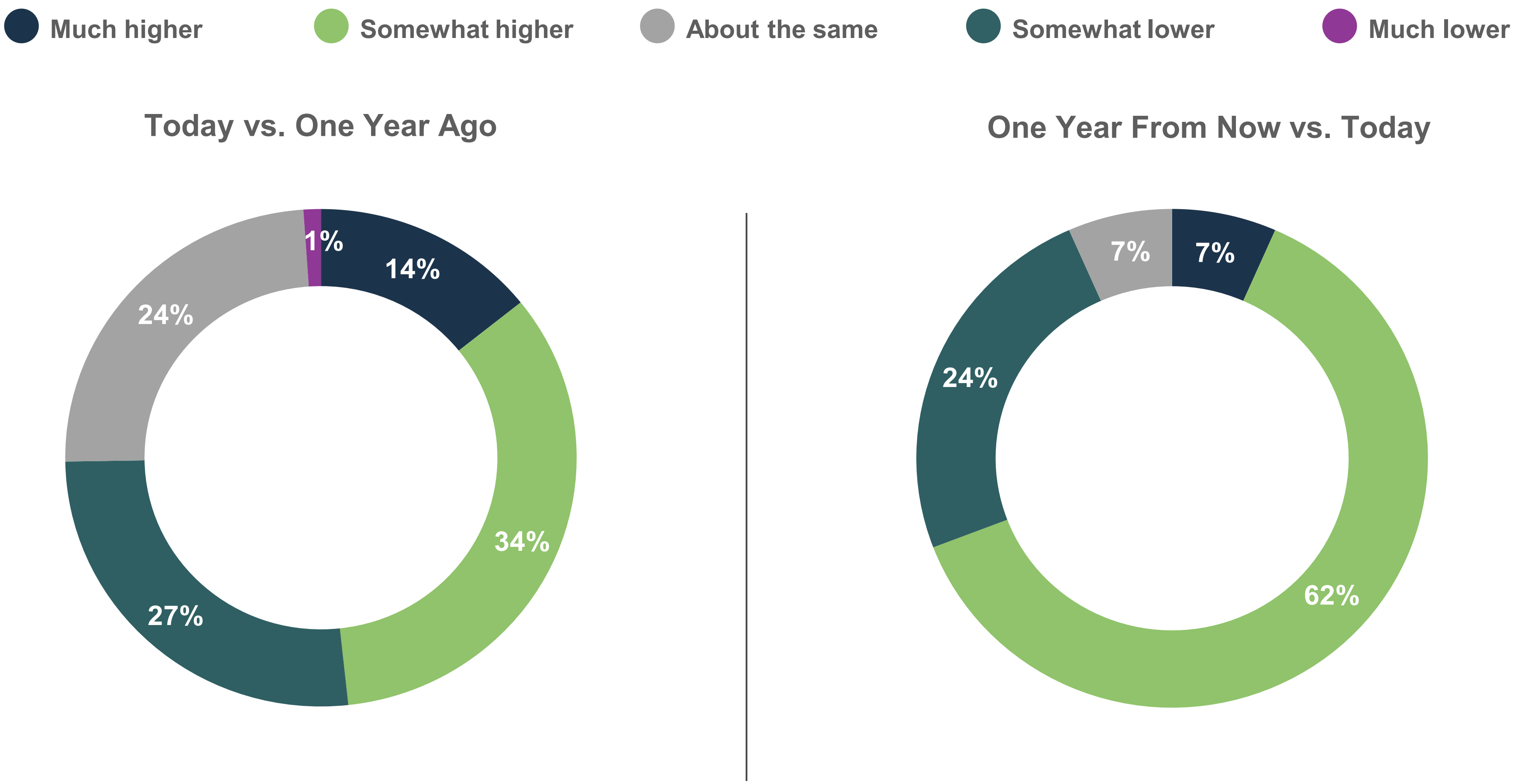
“Pricing in certain sectors like industrial is getting ridiculous. There is a lot of money chasing not very many deals, which is why we are seeing alternatives like life science and storage being bid up as well.

“Every deal is highly competitive, and we are bidding with a lot more groups and people we haven’t heard of before. We are transitioning to lower risk strategies as a result. We would rather take a little less return for a lot less risk.

# Exhibit 3

## Real Estate Asset Values

% of respondents



# Capital Markets

Respondents cited that debt and equity capital remains plentiful, with the real challenge being sourcing attractive opportunities to deploy it.

“There is plenty of capital available up and down the stack, which is very different than 12 months ago, and it is trending better. Pricing is coming down on the debt side.

“We are starting to see acceleration of companies being more inquisitive given the low cost of capital and how the economic recovery has played out. Debt availability has been as good as it has ever been.

“It’ll be interesting to see what happens to the money on the sidelines that was meant for distressed assets. Will [investors] start looking for value because they need to put money to work? Maybe they work up the chain of distressed, to value, and then to full priced assets and accelerate the recovery? I know they don’t want to give the money back.

“There’s tons of capital out there and we are seeing more competition for deals. Everyone wants resiliency and cash flow.

“As/when the economy improves, the broad demand for debt capital is likely to expand, which means there could be less capital available for real estate debt, especially for smaller and mid-market borrowers who rely primarily on banks and credit unions.

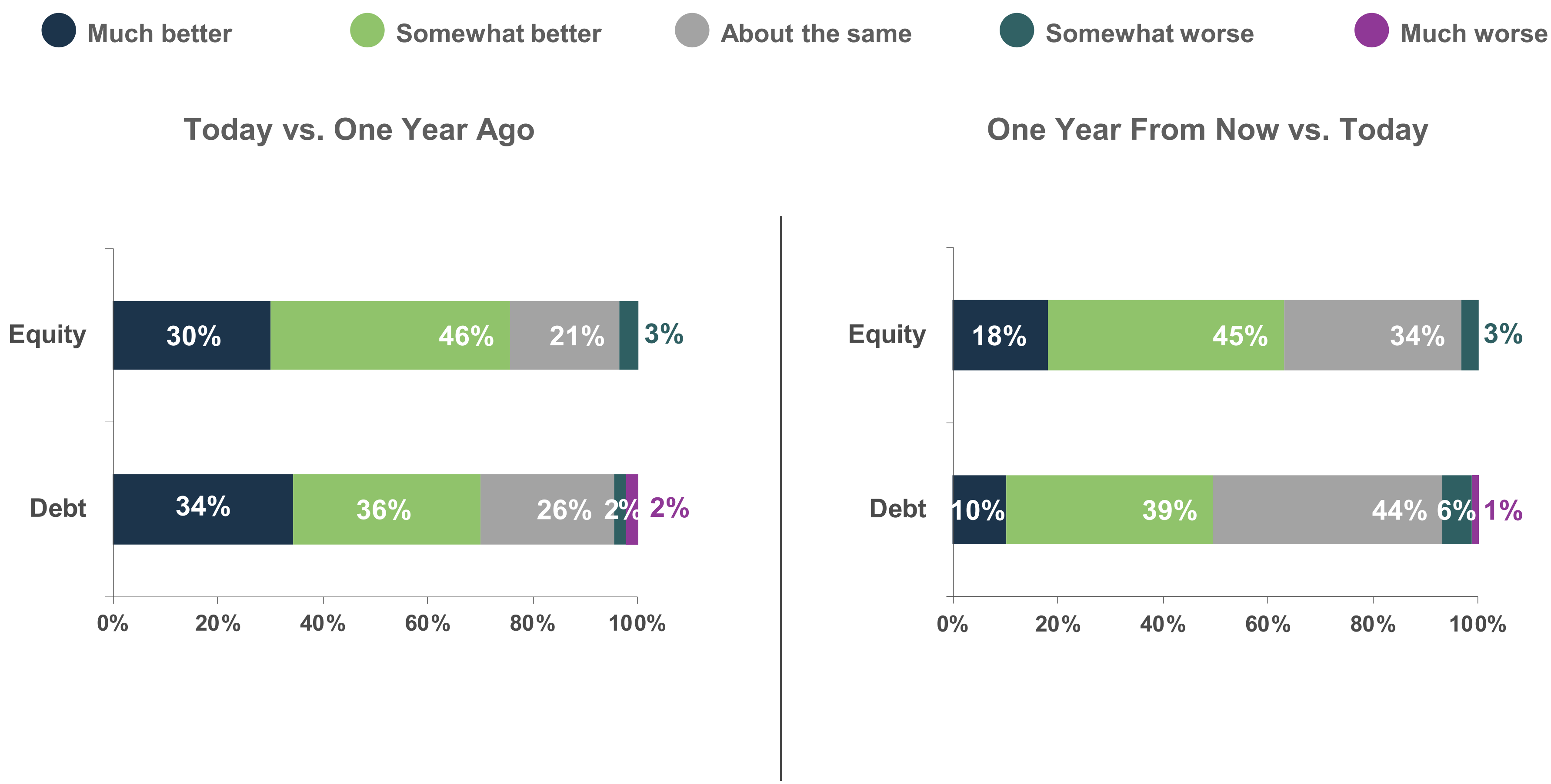
“The significant availability of both debt and equity are pushing prices to new highs in certain asset classes. Is it happening too quickly? Is there too much liquidity? Tough to say.

“We are benefitting from several things in the space with regards to capital availability: 1) the Fed is expanding the money supply which is leading to a wealth effect where there are more investors wanting to deploy capital 2) investors are increasing their allocations to real estate. There is no shortage of capital.

# Exhibit 4

**Availability of Capital**

% of respondents



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