The Real Estate Roundtable Sentiment Index

Fourth Quarter 2021

The Real Estate Roundtable

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The Real Estate Roundtable is pleased to announce the results from the Q4 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 Q4 2021 Real Estate Roundtable Sentiment Index registered a score of 73, a decrease of five points from the third quarter of 2021 and a 29-point increase over Q4 2020. Despite the slight downtick from Q3, participants largely expressed optimism regarding the current fundamentals of the commercial real estate market.
- That said, perceptions vary by property type and geography, with industrial, multifamily, life sciences and data centers most in favor. Delayed return-to-office policies and questions about office space demands have resulted in a degree of uncertainty.
- Asset values have trended upward across asset classes compared to the previous quarter.
- Participants cited a continued availability of debt and equity capital. International investors remain highly interested in opportunities within the United States.

[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 2021 Real Estate Roundtable Sentiment Index registered a score of 73, a decrease of five points from the third quarter of 2021 and a 29-point increase over Q4 2020. Despite the slight downtick from Q3, participants largely expressed optimism regarding the current fundamentals of the commercial real estate market.

“Despite all the uncertainty wrought by the pandemic over the past 2 years, I sense a return of optimism and an energy to get back to robust capital markets activity.

“The real estate market continues to improve, both in terms of fundamentals and certainly capital markets. Investor appetite for real estate seems undiminished.

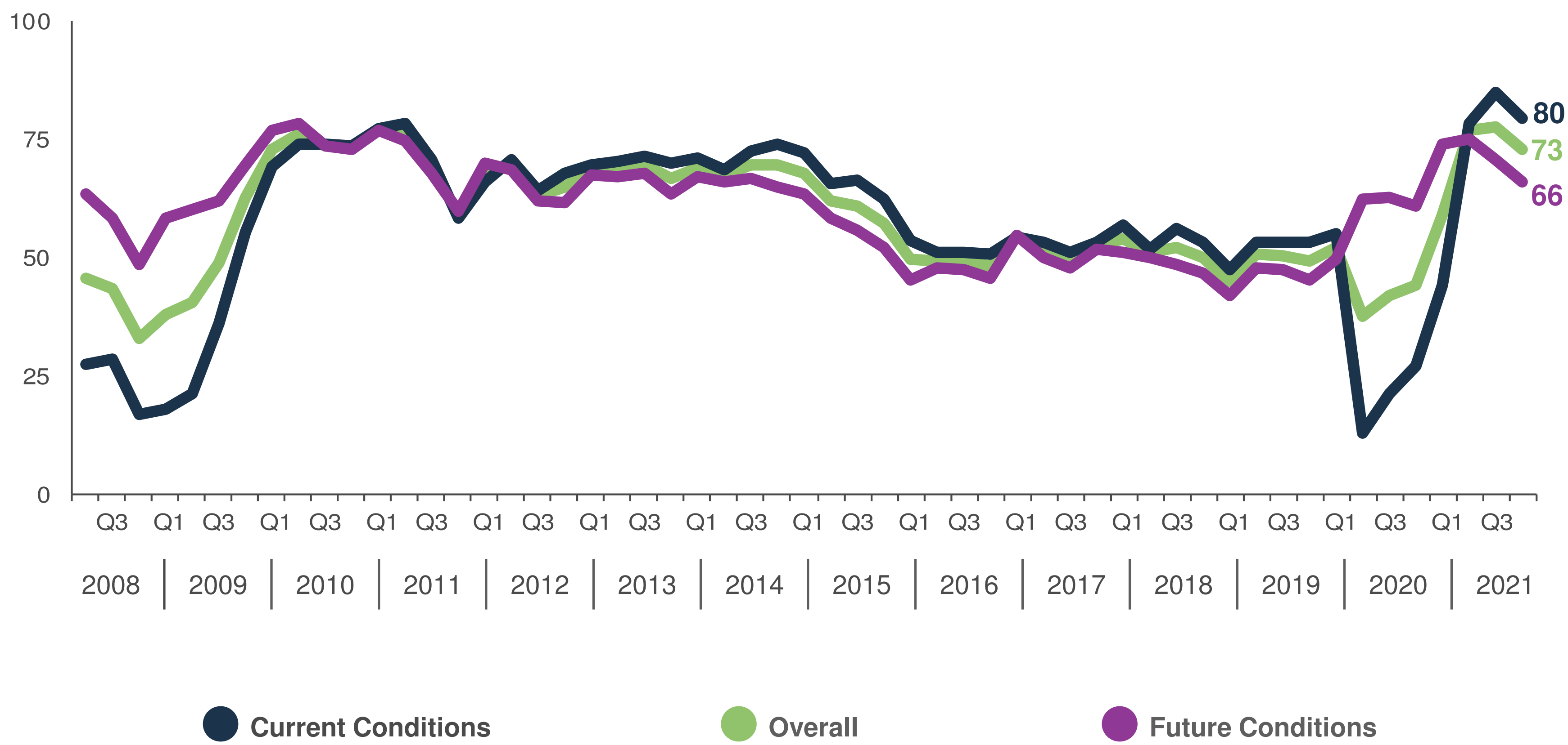
“The Fed will take action to control inflation by increasing interest rates; however, rates will remain low by historic norms. Debt capital will be available for those with significant equity capital backing the debt. Single family housing needs to grow to accommodate pent up demand, and workforce multifamily housing should be a focus for investors. Expectations for viable, necessity-based and experiential shopping centers should be a bright spot as people venture back into post-COVID-19 lifestyles. Industrial may recalibrate as overbuilding occurs in certain markets but has running room currently (although fully priced). ESG policies are very important to institutional investors. Office will recover slowly, and could be an opportunity, as are some of the niche sectors. All in all, the future is brighter, folks.

“The fundamentals of both industrial and multifamily continue to be very strong and have both sectors at the top of the performance charts and continued investor interest. A return to the office should increase over the next year and help stabilize that segment.

“We are seeing continuing strengthening in the markets. Demand for real estate is strong. Residential and industrial are probably the strongest sectors; data centers also remain strong. Capital flows into real estate continue to be very strong!

Exhibit 1

The Real Estate Roundtable Sentiment Index



General Conditions (continued)

That said, perceptions vary by property type and geography, with industrial, multifamily, life sciences and data centers most in favor. Delayed return-to-office policies and questions about office space demands have resulted in a degree of uncertainty.

“Industrial and data centers and storage are all popular. We are seeing investors moving in crowds more than ever before – all are out or all are in.

“Overall market conditions are quite ideal; it’s a market of demand in many sectors. There is a big demand growth in multifamily and a material lack of supply of single-family homes. Life sciences could not be more in demand.

“CBD office in bicoastal markets of NY and SF will still be under pressure for next 12 months. We are convinced people will come back to the office; big banks are already moving in this direction in terms of making people come back, but it will take longer in SF.

“Some cities are doing better than others – gateway markets are doing well. Red states are doing much better. Tax exposure and social unrest in blue states is driving that to some degree. People are looking for stability to make investments.

“The market globally is still in a COVID-19 economy; there is still uncertainty around what that means. Office has been insulated by long-term leases but will face a reckoning in the next 18-24 months as companies start to fundamentally analyze how they will consume office/retail.

“There is a giant experiment happening in terms of how companies view and use office space. We are waiting to see what remote work does to the employee experience, loyalty, and culture. I don’t think remote work forever is the answer.

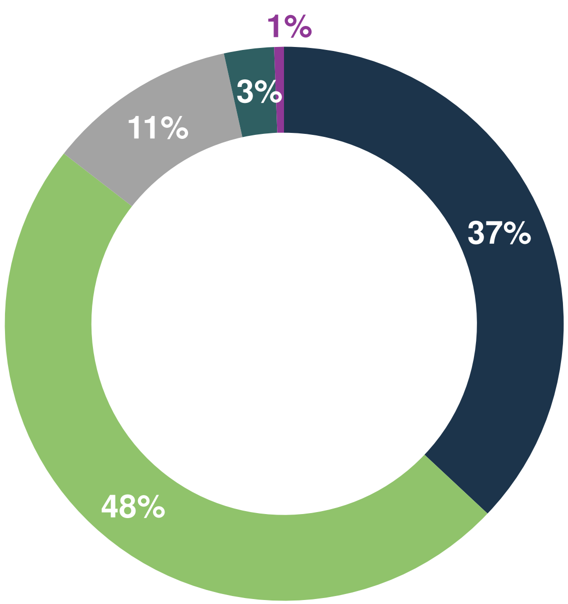
Exhibit 2

General Market Conditions

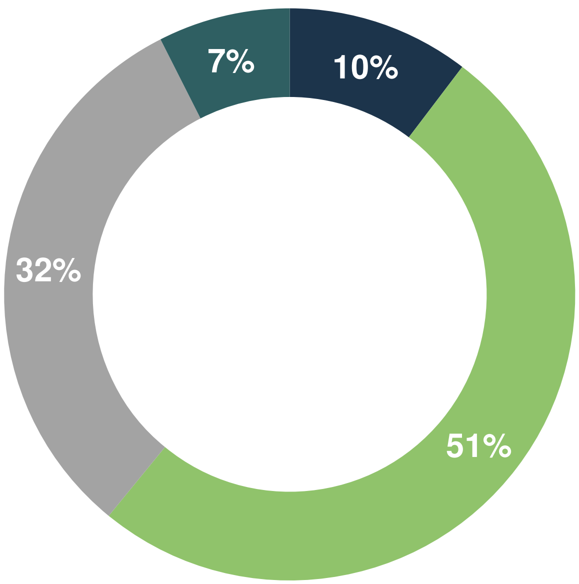
% of respondents

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

Today vs. One Year Ago



One Year From Now vs. Today



Asset Values

Asset values have trended upward across asset classes compared to the previous quarter.

“Everything is more expensive than 6 months ago; we are getting close to a ceiling.

“All asset classes besides office and hotel are in a V shaped recovery. Billions of dollars on the sidelines that would go to office is looking at different food groups bringing pricing to extraordinary levels.

“We see good pricing in senior housing, red state residential, life science, urban residential, medical academic, and mini storage – there is an awful lot of velocity in those markets.

“I still think there is an uptick in pricing, especially in the multifamily spaces that carry strong amenities.

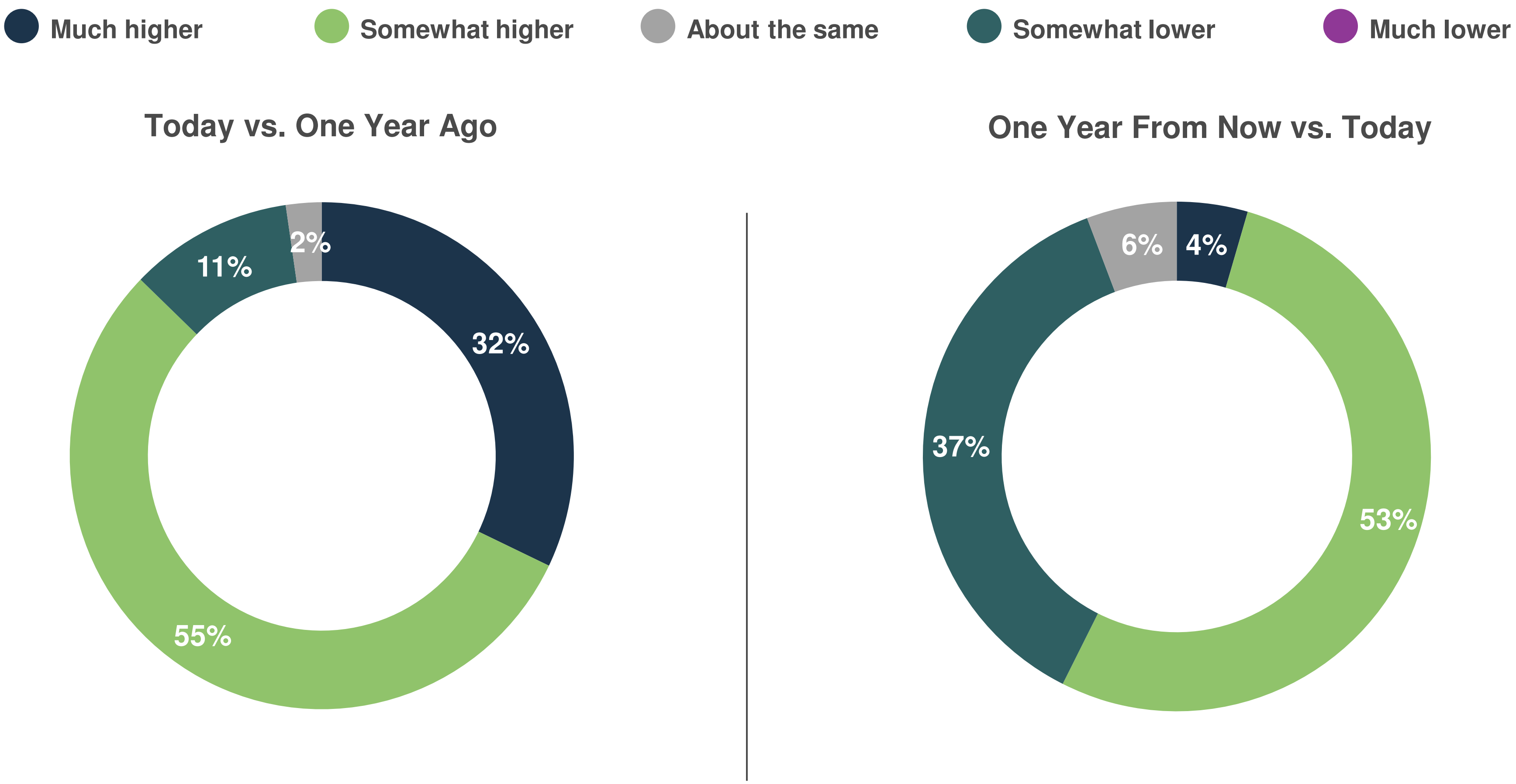
“Capital rates are contracting which are driven by financing being readily available. Capital rates are below pre-COVID-19 levels for industrial and multifamily space.

“The market is very expensive, especially for multifamily and industrial. That said, fundamentals are keeping them full and driving rent pressure. Other sectors bring more risk and uncertainty. Time will be necessary to work through imbalances and the most creative and well-capitalized real estate professionals will have tremendous opportunities.

Exhibit 3

Real Estate Asset Values

% of respondents



Capital Markets

Participants cited a continued availability of debt and equity capital. International investors remain highly interested in opportunities within the United States.

“I’ve never seen anything close to this much capital flowing into the real estate sector in my entire career. Deals are much more competitive; you have to pay more and move faster.

“We are seeing amazing amounts of capital sitting on the sidelines ready to be deployed from Singapore, Germany, Israel, Korea, and Canada. Pensions funds are just sloshing with capital. There is plenty of capital that is chasing too few of deals.

“For qualified borrowers there is plenty of debt capital; we haven’t seen credit standards wane.

“There is abundant equity everywhere in the economy. Stimulus is sloshing around, and a bunch of capital was parked on the sidelines during COVID-19 that is now coming into play. It is an interesting alignment of reasons, but there is a lot of capital.

“Debt liquidity has improved the deal environment. A lot of sellers in the market are trying to take advantage of the surplus of buyers. All told, it is a healthy market.

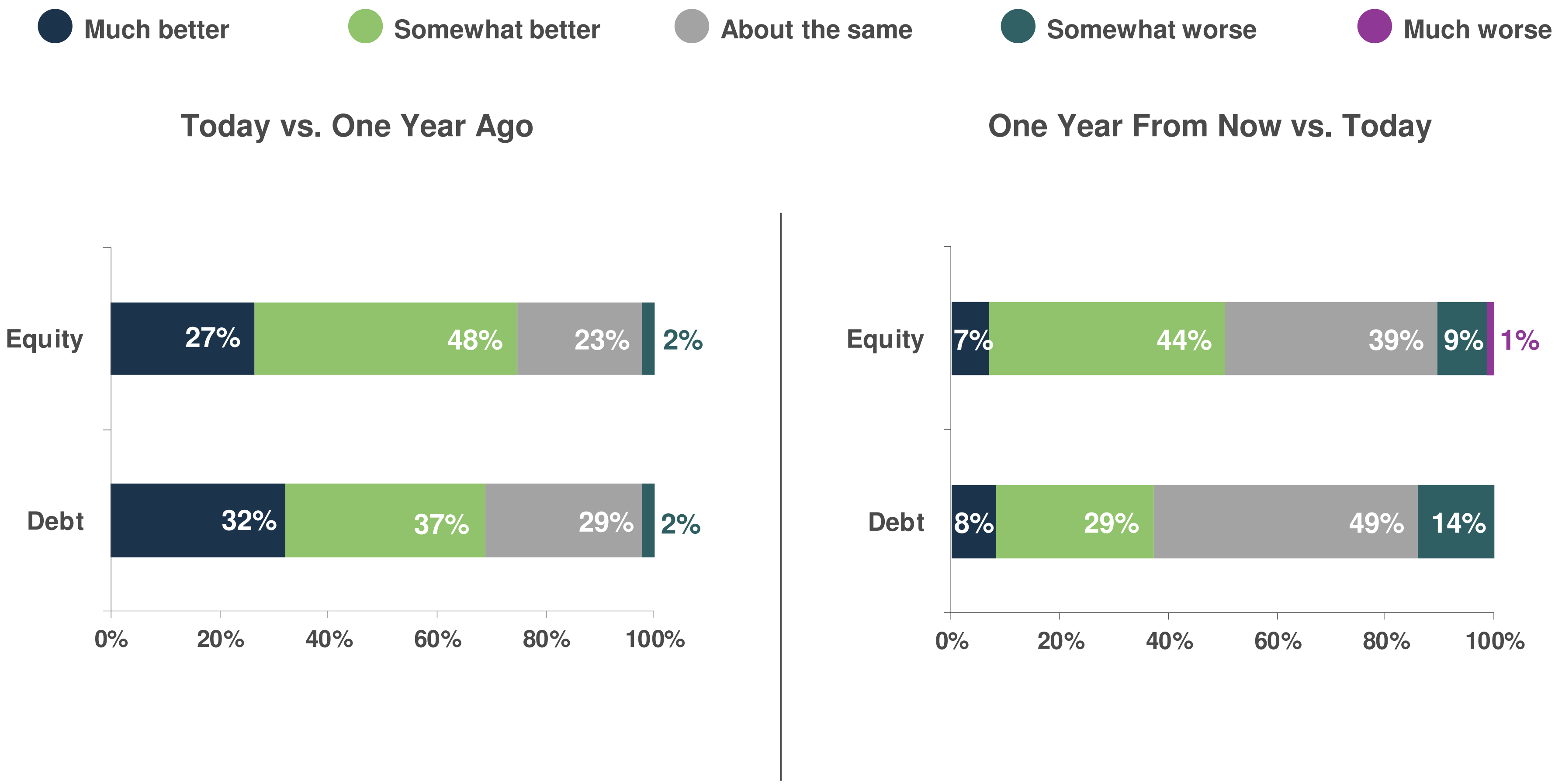
“We are seeing significant amounts of international capital seeking opportunities in the United States.

“Good deals continue to get refinanced on the debt side for all assets. Equity is very available across all asset classes including retail and office.

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.)

Steven Hason
APG Asset Management

Alexandra Glickman
Arthur J. Gallagher & Co.

Mark E. Rose
Avison Young

Joe Marconi
Bain Capital Real Estate

Rudy Prio Touzet
Banyan Street Capital

Tammy K. Jones
Basis Investment Group

Alan King
Berkshire Residential Investments

Henry Chamberlain
BOMA - Building Owners & Managers Association Intl.

Charles Davidson
Brookdale Group, The

Brad Chambers
Buckingham

Douglas Pasquale
Capstone Enterprises

Greg Stapley
CareTrust REIT

Robert Stern
Castle Hill Investors

Mike Lafitte
CBRE

Thomas M. Flexner
Citigroup

Sean Burton
Cityview

Alan Gosule
Clifford Chance, LLP

Timothy G. Wallace
Community Healthcare Trust, Inc.

Steven DeFrancis
Cortland

Bradley Razook
CSCA Capital Advisors, LLC

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

Charles Wurtzebach
DePaul University – Real Estate Center

A. William Stein
Digital Realty Trust

James B. Connor
Duke Realty Corporation

Daniel M. Neidich
Dune Real Estate Partners, LP

Jodie McLean
EDENS

Anthony E. Malkin
Empire State Realty Trust, Inc.

Brian Finerty
Equity International

Mark J. Parrell
Equity Residential

Marty Cicco
Evercore

Donald C. Wood
Federal Realty Investment Trust

Frank G. Creamer, Jr.
FGC Advisors, LLC

Peter E. Baccile
First Industrial Realty

Alex Klatskin
Forsgate Industrial Partners

Chaim Katzman
Gazit Group USA, Inc.

Richard Ziman
Gilbert Foundation

Randall K. Rowe
Green Courte Partners, LLC

Robert Ivanhoe
Greenburg Traurig, LLP

Participants (continued)

Jonathan Hook
Harry and Jeanette Weinberg Foundation

Thomas M. Herzog
Healthpeak Properties, Inc.

Jeffrey B. Citrin
Hectad Strategic Partners, LLC

Theodore J. Klinck
Highwoods Properties, Inc.

Ross Perot, Jr.
Hillwood

Dean Parker
Hinshaw & Culbertson, LLP

Guy Johnson
Johnson Capital Group, Inc.

Geordy Johnson
Johnson Development Associates, Inc.

Conor Flynn
Kimco Realty Corporation

Peter McDermott
KSL Capital Partners, LLC

Matthew J. Lustig
Lazard

Michael H. Lowe
Robert J. Lowe
Lowe

Edward C. Coppola
Macerich

Kevin McMeen
MidCap Financial, LLC

James H. Miller
Miller Global Properties

Thomas F. Moran
Moran & Company

Laurel Durkay
Morgan Stanley Investment Management

Robert Griffin
Newmark

Taylor Pickett
Omega Healthcare Investors, Inc.

Michael Turner
Oxford Properties Group

Albert Behler
Paramount

William Lindsay
PCCP

Mark Dukes
John T. Thomas
Physicians Realty Trust

Todd Everett
Principal Real Estate Investors

Eugene F. Reilly
Prologis

Peter Fass
Proskauer Rose LLP

Jerry Starkey
RE Partners International

Sumit Roy
Realty Income Corporation

Richard S. Ziman
Rexford Industrial Realty, Inc.

Leslie D. Hale
RLJ Lodging Trust

Daniel J. Moore
Rockefeller Group International, Inc.

Scott Everett
S2 Capital, LLC

JR Pearce
Sacramento County Employees' Retirement System

Robert A. Alter
Seaview Investors, LLC

Marty Burger
Silverstein Properties

Marc Holliday
SL Green Realty Corporation

Participants (continued)

Jackson Hsieh
Spirit Realty Capital, Inc.

Benjamin S. Butcher
STAG Industrial, Inc.

Adam A. Behlman
Starwood Property Trust

Randall Eggert
State of Wisconsin Investment Board

John F. Fish
SUFFOLK

Rick Buziak
Swift Real Estate Partners

Tomas Schoenberg
Swig Company, The

Gregg Gerken
TD Bank

Michael A. Covarrubias
TMG Partners

Doug Prickett
Transwestern

Brian P. Ward
Trimont Real Estate Advisors

Jeffrey Zabel
Tufts University—Department of Economics

Thomas W. Toomey
UDR

Gary M. Tischler
Vanbarton Group, LLC

Glenn J. Rufrano
VEREIT, Inc.

Walker Noland
Virginia Retirement System

Contact

Please direct all inquiries regarding this study to:

Erin Green

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