The Real Estate Roundtable Sentiment Index

The Real Estate Roundtable is pleased to announce the 2022 Q1 Real Estate Roundtable Sentiment Survey results. The quarterly survey, conducted by Ferguson Partners on behalf of The Roundtable, measures the views of CEOs, presidents, and other top commercial real estate industry executives regarding current real estate market conditions and the future outlook on three general topics:

1. Overall real estate conditions
2. Access to capital markets
3. Real estate asset values

Topline Findings

• The Q1 2022 Real Estate Roundtable Sentiment Index registered a score of 66, a decrease of seven points from the fourth quarter of 2021 but a seven-point increase over Q1 2021. While optimistic about the economic outlook going forward, inflation concerns and a rising interest rate environment were frequently cited as potential headwinds for the industry.

• Survey respondents’ outlook varied between asset classes and location; most participants felt that real estate assets, particularly single and multifamily housing and industrial, remain largely “priced to perfection” with limited supply being chased by seemingly “boundless” capital.

• This supply-demand imbalance has generally led to compressed cap rates across favorable asset classes and results in perceptions that valuations will remain elevated.

• Participants cited a continued abundance of debt and equity capital and strong investor demand for real estate.

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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 2022 Real Estate Roundtable Sentiment Index registered a score of 66, a decrease of seven points from the fourth quarter of 2021 but a seven-point increase over Q1 2021. While optimistic about the economic outlook going forward, inflation concerns and a rising interest rate environment were frequently cited as potential headwinds for the industry.

“Compared to one year ago when the vaccines were just beginning to roll out and the CRE outlook was murky, we are in a much better spot. As 2021 progressed, the market came to life and capital flowed aggressively. I am not sure 2022 will be dramatically better than 2021, but the outlook at the start of this year is more promising than it was at the start of last year.”

“Overall, the market outlook is favorable. Strong GDP growth, limited supply of assets (supply chain/inflation issues), robust credit availability, and lots of capital interested in real estate are all tailwinds for us. We are keeping our eye on interest rates, however.”

“With Omicron [hopefully] in the rear-view mirror, we feel it’s the best forward-looking view since 2019 as capital starts its ‘herd’ investing.”

“The real estate industry will be very dependent on the pace of change in interest rates and inflation. If there is a steady rise in both it will be very positive for the industry, but if there are continued quick large moves, the industry will pause on valuations and cost of debt.”

“Capital flowing into sectors benefitting from secular demand has rewarded the less experienced operators and developers as well as the established players. Inflation, higher interest rates, and distress in biotech are going to test the market and may result in some opportunities for the savvier investors.”
Exhibit 1

The Real Estate Roundtable Sentiment Index

![Graph showing the Real Estate Roundtable Sentiment Index from Q3 2008 to Q1 2022. The index fluctuates over time, with notable peaks and troughs. The index is color-coded as follows: Current Conditions (black), Overall (green), and Future Conditions (purple).]
General Conditions (continued)

Survey respondents’ outlook varied between asset classes and location; most participants felt that real estate assets, particularly single and multifamily housing and industrial, remain largely “priced to perfection” with limited supply being chased by seemingly “boundless” capital.

We are seeing an active touring/leasing market for office space which is increasing month over month. Residential is on fire with rents going up across the board and concessions all but eliminated. It will be interesting to see if rent growth can be sustained.”

Demand for more square footage has been the biggest driver of demand irrespective of asset class. The real estate market in general is on solid footing. Out-of-favor asset classes will return.”

There is currently far too much liquidity in the market across both equity and debt. We are seeing historically low cap rates for almost all property types, except for lodging and most retail. Underwriting is being priced to perfection, with little margin of error and, in many cases, based on some rather aggressive assumptions.”

Appreciation will cool down and returns will temper in the logistics and multifamily spaces, but they are likely to remain the top performing asset classes. We expect office to remain flat and lag the recovery of retail. While interest rates will tick up, we don’t believe that will lead to much cap rate expansion in industrial and multifamily, particularly due to the wall of capital chasing those sectors.”

Real estate will continue to be used as an inflation hedge and we expect demand to continue to grow over the next 12 months.”

Too much liquidity and trepidation regarding office and certain types of retail is driving capital to more ‘niche’ property types while also inflating prices of industrial and multifamily.”
Exhibit 2

General Market Conditions

% of respondents

- Much better
- Somewhat better
- About the same
- Somewhat worse
- Much worse

Today vs. One Year Ago

- Much better: 22%
- Somewhat better: 45%
- About the same: 8%
- Somewhat worse: 1%
- Much worse: 1%

One Year From Now vs. Today

- Much better: 15%
- Somewhat better: 45%
- About the same: 31%
- Somewhat worse: 1%
- Much worse: 8%
Asset Values

This supply-demand imbalance has generally led to compressed cap rates across favorable asset classes and results in perceptions that valuations will remain elevated.

“There is lots of money chasing too few deals. We are seeing substantial cap rate compression in multifamily. Debt is cheap so people are using it.”

“High/unaffordable residential housing prices are linked to the lack of supply. More needs to be done to increase the overall supply of housing. Loosening the grip that local land use restrictions have will be particularly important for increasing supply.”

“The market is very richly priced; however, fundamentals continue to recover and in certain sectors, are very strong. Record amounts of capital continue flowing into real estate; this is likely to continue given the volatility and pricing in the equities and bond markets. Inflation is also a major concern in the market; however, real estate is often considered a hedge during inflationary times and thus will drive even more capital to this asset class.”

“Risk is getting priced out of assets, especially those assets where there is any non-GDP driven growth (i.e. growth driven by secular forces). Sub 4% yields for industrial, life science, and multifamily are not sustainable, especially with even nominal interest rate growth. Despite better leverage levels than in previous run-ups, with yields this low it only takes small movements in capital markets or real estate fundamentals to have meaningful impact on value.”

“There is tons of capital looking for assets to deploy into. Patient owners and impatient capital are leading to cap rate compression.”
Exhibit 3

Real Estate Asset Values
% of respondents

Today vs. One Year Ago
- 9% Much higher
- 2% Somewhat higher
- 39% About the same
- 50% Somewhat lower
- 2% Much lower

One Year From Now vs. Today
- 13% Much higher
- 4% Somewhat higher
- 34% About the same
- 49% Somewhat lower
Capital Markets

Participants cited a continued abundance of debt and equity capital and strong investor demand for real estate.

“There is continued strong availability of debt financing across the board.”

“Lots of capital floating around and firms are feeling pressure and facing competition when trying to deploy all the dry powder they have on hand. There is more capital than opportunity to place it.”

“A lot of capital chasing, not enough deals, which is raising prices even in tertiary markets.”

“Interest rates will dramatically impact where money is going. Low rates now make it a good time to buy multifamily especially in supply-constrained markets because you can raise rents over time.”

“There is more capital available now than 12 months ago. We expect this to continue to grow.”

“There is near unlimited capital available across the board. Capital availability should be the last of anybody’s worries.”

“Dry powder has been put to work finally. Some of the war chests got depleted not by being put to work but by rising rates.”
Exhibit 4

Availability of Capital
% of respondents

Today vs. One Year Ago

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One Year From Now vs. Today

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Participants (Please note that this is only a partial list. Not all survey participants elected to be listed.)

Alexandra S. Glickman
Arthur J. Gallager & Co.

Benjamin Schall
AvalonBay

Mark E. Rose
Avison Young

Beth Thomas & Joe Marconi
Bain Capital Real Estate

Rudy Prio Touzet
Banyan Street Capital

Tammy K. Jones
Basis Investment Group

Fred Seigel
Beacon Capital Partners

Colin Behring
BehringCo.

Alan King
Berkshire Residential Investments

Andrew Jacobs
BGO Strategic Capital Partners

Henry Chamberlain
BOMA International

Michael Dashle
Brookfield Properties

Douglas Pasquale
Capstone Enterprises

Greg Stapley
CareTrust REIT

Robert Stern
Castle Hill Investors

Mike Lafitte
CBRE

Sean Burton
CityView

Alan Gosule
Clifford Chance, LLP

Timothy G. Wallace
Community Healthcare Trust, Inc.

Steven DeFrancis
Cortland

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

Brian Ruben
Deloitte

Charles Wurtzebach
DePaul University – Real Estate Center

A. William Stein
Digital Realty Trust

Jay Epstein
DLA Piper

Dan. A. Emmett
Douglas Emmett, Inc.

Daniel M. Neidich
Dune Real Estate Partners, LP

Angel Brunner
EB5 Capital

Jodie W. McLean
EDENS

Brian Finerty
Equity International

Mark J. Parrell
Equity Residential

Frank G. Creamer, Jr.
FGC Advisors, LLC

Peter E. Baccile
First Industrial Realty Trust

Suzanne Goldstein Baker
FNF/Investment Property Exchange Services

Alex Klatskin
Forsgate Industrial Partners

Chaim Katzman
Gazit Group

Jonathan J. Ofer
Global Holdings Management

Randall K. Rowe
Green Courte Partners, LLC

Robert Ivanhoe
Greenburg Traurig, LLP

Thomas M. Herzog
Healthpeak Properties, Inc.

Jeffrey B. Citrin
Hectad Strategic Partners

Theodore J. Klinck
Highwoods Properties, Inc.
Participants (continued)

Dean Parker
Hinshaw & Culbertson, LLP

Mark Hoplamazian
Hyatt Hotels

Mitchell Sabshon
Inland Real Estate Investment Group

Dallas Tanner
Invitation Homes

William S. Janes
Iron Point Partners

Michael J. McNamara
John Hancock/Manulife

Guy Johnson
Johnson Capital Group, Inc.

Geordy Johnson & Kevin Sullivan
Johnson Development Associates, Inc.

Tyler Rose
Kilroy Realty

Conor Flynn
Kimco Realty Corporation

Ralph Rosenberg
KKR

Matthew J. Lustig
Lazard

Tim Byrne
Lincoln Property Group

Robert J. Lowe
Lowe

Edward C. Coppola
Macerich

Hessam Nadji
Marcus & Millichap RE Investment Services

Kevin McMeen
MidCap Financial, LLC

Charles R. Brindell, Jr.
Mill Creek Residential Trust

James H. Miller
Miller Global Properties

Laurel Durkay
Morgan Stanley Investment Management

John Z. Kukral
Northwood Investors

Taylor Pickett
Omega Healthcare Investors, Inc.

William Lindsay
PCCP

Bryan McDonnell
PGIM

Todd Everett
Principal Real Estate Investors

Chris Caton & 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.

Daniel J. Moore
Rockefeller Group International, Inc.

Scott Everett
S2 Capital, LLC

JR Pearce
Sacramento County ERS

Robert A. Alter
Seaview Investors, LLC

Marty Burger
Silverstein Properties

Benjamin S. Butcher
STAG Industrial

John F. Fish
Suffolk

Greg Winchester
Summit Investors

Rick Buziak
Swift Real Estate Partners

Stephanie Ting
Swig Company (The)

Michael A. Covarrubias
TMG Partners

Doug Prickett
Transwestern
Participants (continued)

Jeffrey Zabel
Tufts University—Department of Economics

Thomas W. Toomey
UDR

Gary M. Tischler
Vanbarton Group, LLC

Walker Noland
Virginia Retirement System

Michael Franco
Vornado Realty Trust

Willy Walker
Walker & Dunlop

Richard B. Clark
WatermanCLARK

Kara McShane
Wells Fargo

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

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