

The Real Estate Roundtable Sentiment Index



Second Quarter 2022



The Real Estate Roundtable

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The Real Estate Roundtable is pleased to announce the results from the Q2 2022 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

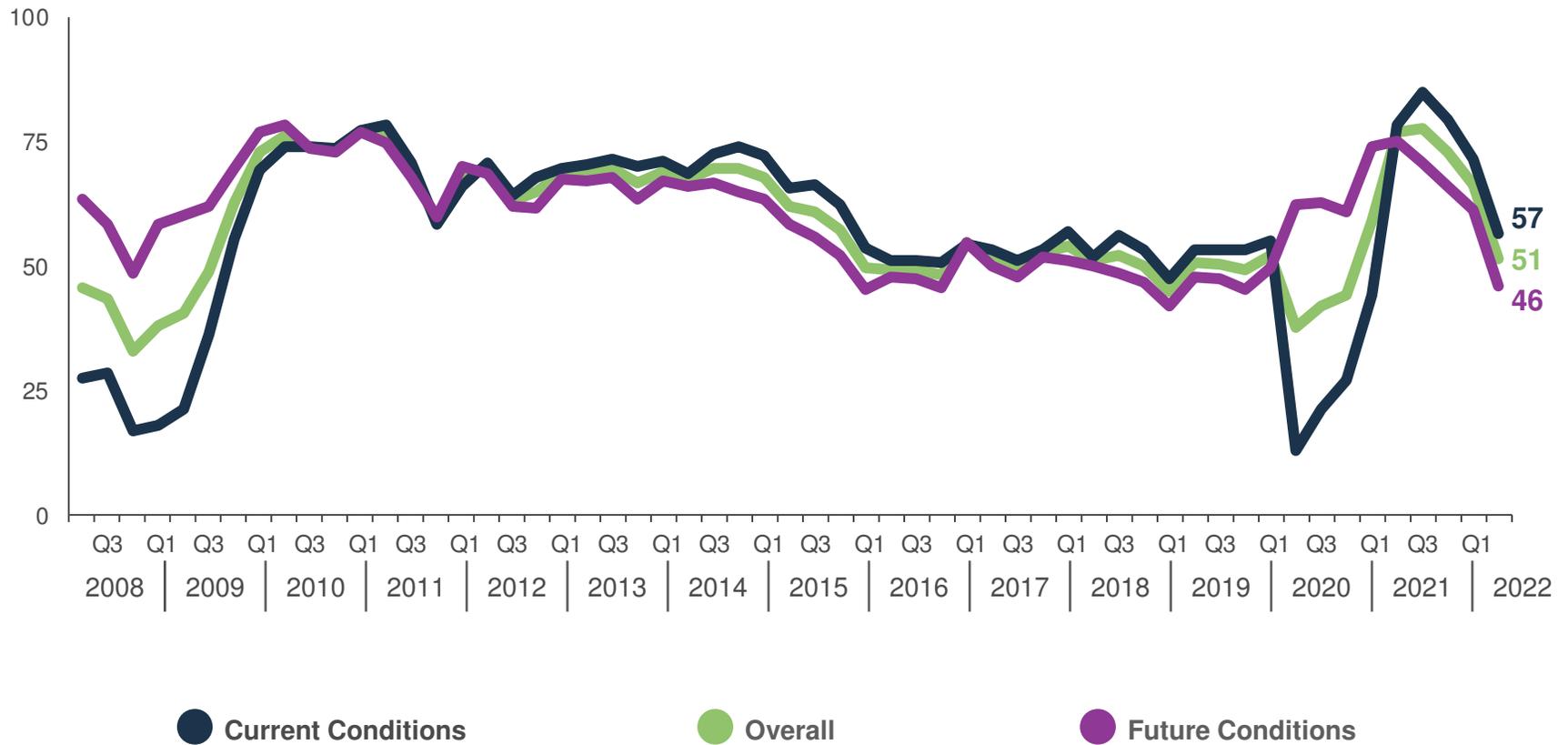
- The Q2 2022 Real Estate Roundtable Sentiment Index registered an overall score of 51, a decrease of 15 points from the previous quarter's overall score and 26 points lower than a year earlier. Survey respondents remain optimistic but have tempered their expectations due to geopolitical and economic uncertainties, which include rising interest rates, increased inflation, and labor and supply chain shortfalls.
- Perceptions vary by property type and geography, with industrial, multifamily, life sciences, and data centers continuing to be most favored. As employers continue to roll out return-to-office policies, the demand for office space remains uncertain.
- Asset values have trended upward across asset classes compared to last year, while forward-looking expectations are starting to taper off.
- Participants cited a continued availability of debt and equity capital despite those heightened concerns over rising interest rates, geopolitical concerns, and inflationary risk.

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.



Exhibit 1

The Real Estate Roundtable Sentiment Index



General Conditions

The Q2 2022 Real Estate Roundtable Sentiment Index registered an overall score of 51, a decrease of 15 points from the previous quarter's overall score and 26 points lower than a year earlier. Survey respondents remain optimistic but have tempered their expectations due to geopolitical and economic uncertainties, which include rising interest rates, increased inflation, and labor and supply chain shortfalls.

“The picture is a little murkier than last year, maybe less optimistic than even last July. There appear to be more clouds and headwinds on the horizon making it more difficult to predict where we go from here.”

“We are not off the post COVID-19 resurgence where everything went up and we had lots of volume. If that returns to more normal levels, it might create the appearance of the market pulling back, when in reality the situation is just settling down.”

“Supply chain disruptions have driven costs much higher. A lot of the change is due to the supply and demand of labor; labor costs are rising dramatically. Add that to supply chain disruptions with increases in energy and fuel costs and it's quickly becoming a real story.”

“The supply chain issues are a real challenge for development and the delays we are still seeing are staggering. That's going to add quite a bit to the calculus on what the cost of a project is going to be while also making for longer lead times.”

“There is an upswing in the number of organizations announcing a return to office. However, we are a little concerned because we saw this movie twice this past year; we had a lot of momentum, but the Delta and Omicron variants changed those plans. I think people are optimistic that there's a steady stream of people returning (which is positive).”

“We are cautiously optimistic that plans to return to the office will go well but it is still going to be tricky. Firms can't simply put the genie back in the bottle all at once. We've personally downsized our footprint considerably because no one needs a big fancy office anymore.”

General Conditions (continued)

Perceptions vary by property type and geography, with industrial, multifamily, life sciences, and data centers continuing to be most favored. As employers continue to roll out return-to-office policies, the demand for office space remains uncertain.

“All in all, we are really positive at the moment, but understand the future may be very different. Industrial is very strong thanks to the continued tailwinds of e-commerce. Vacancy in those assets is lower than 12 months ago in every market.”

“On the industrial side, fundamentals are strong, rent growth is amazing, and vacancies are at an all-time low. We are starting to become concerned about some of the markets that have a lot of supply where cap rates have bottomed. Cap rate compression may level out and perhaps tip back up just a hair.”

“Thanks to the population growth in the Southeast, multifamily rent demand is really driving growth which is keeping affordability difficult. Additionally, we are seeing strong demand/fundamentals in self-storage and our go-forward outlook remains strong.”

“Investment in multifamily and industrial along with life sciences is in demand and are all doing really well. There are favored assets that are ESG mindful, LEED certified, and carbon conscious that are in the most demand for office.”

“Carbon neutrality will get here not because people believe in it, but because standards are coming and coming fast. While this isn't just about government regulation, we think that is coming as well. Environmental greenhouse emissions and carbon neutrality are now part of your daily vernacular. If you don't believe in it, that's fine. But you're still going to have to deal with it.”

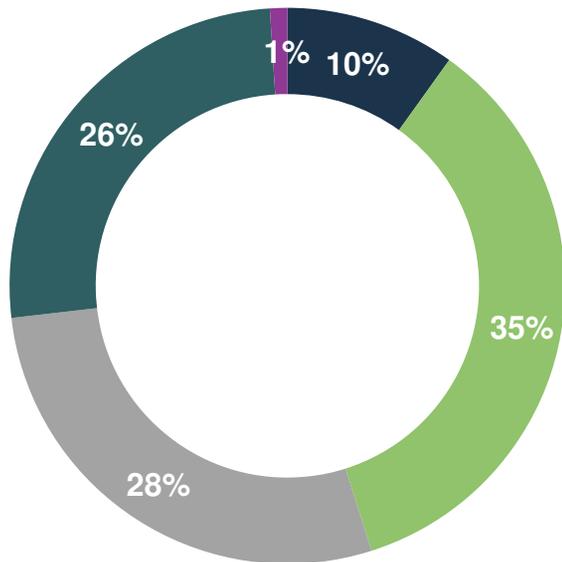
Exhibit 2

General Market Conditions

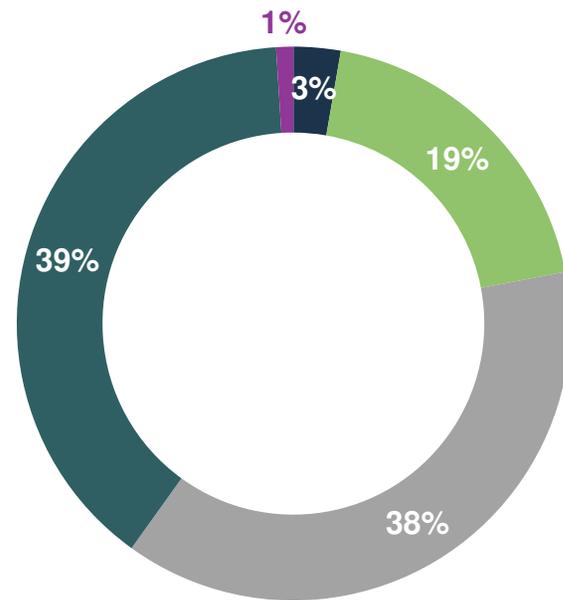
% of respondents

- 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 last year, while forward-looking expectations are starting to taper off.

“As long as there’s geopolitical uncertainty and concerns with inflation and how the Fed is going to handle it, we are going to continue having a choppy environment to transact in. That holdback drives valuations up much further than where they are. With interest rates projected to rise quickly over the next 12 months, it will start to materially affect cap rates.”

“Asset valuation is contingent on pending rate increases, which will drive the short end of the yield curve up dramatically. We are seeing more and more people looking to lock in rates early, all while some projects are reevaluating if they are even viable with higher rates. It is becoming more of a math equation; what can you rent something for with the increased cost in labor, materials, and higher rates?”

“While we haven’t seen a major shift, in general valuations have continued to recover back to pre-pandemic levels.”

“This time around, the story is more a function of the pending rate increases with a firm expectation that rates are going to rise. In terms of the rate impact on deals today, people want to lock rates early as rates have gotten back to pre-COVID-19 levels, and we expect they’ll move past where they were pre-COVID-19.”

“Interest rates ‘skyrocketing’ to 2% is not much of a skyrocket. There is certainly an impact and I think that you’re seeing a huge demand to try to lock in early/lower rates. We do expect that in 2023, we’re going to start to see pricing adjustments in value.”

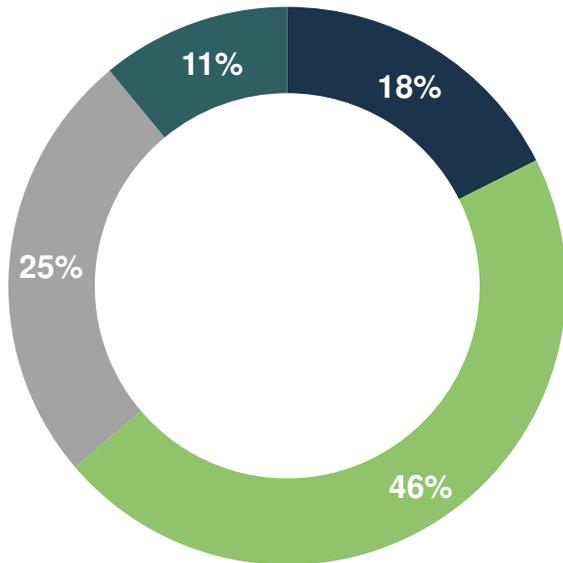
Exhibit 3

Real Estate Asset Values

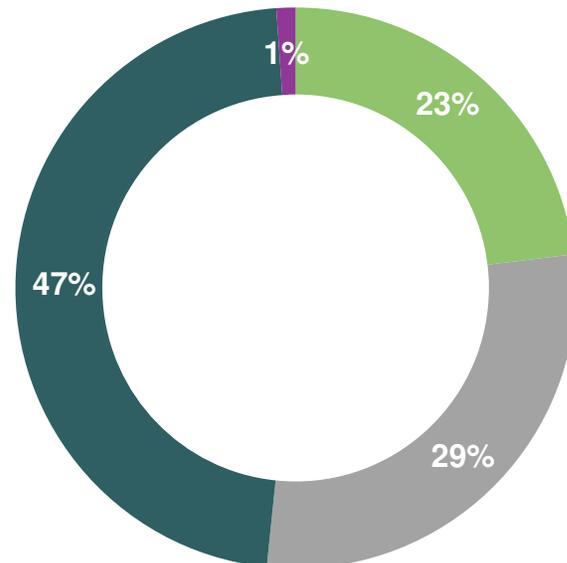
% of respondents

- Much higher
- Somewhat higher
- About the same
- Somewhat lower
- Much lower

Today vs. One Year Ago



One Year From Now vs. Today



Capital Markets

Participants cited a continued availability of debt and equity capital despite those heightened concerns over rising interest rates, geopolitical concerns, and inflationary risk.

“ There is more dry powder than we have ever seen on the sidelines earmarked for real estate. That is seemingly not going away, especially given that equity and bond performance is lagging.”

“ The question is now where is the abundance of institutional equity flowing? Good projects are still getting good capital and at reasonable pricing. It's the stretch assets on a speculative scale where we see issues arising and where more equity is going to be required.”

“ You would think capitalization rates would rise given the current interest rate environment and inflation, but there's an abundance of capital looking for investments that are drawing down yield.”

“ Lenders are still aggressively looking to place capital and as a result we have seen higher rates/rates of spread.”

“ On the debt side, and in general, structures have been getting more competitive in the past few months with longer term, non-recourse, and more flexible terms available on long term debt which has widened the permanent spreads.”

“ While debt is more expensive, we do not have any issues sourcing capital on either side. We have seen dry powder that was previously in abundance still eager to be deployed in niche sectors.”

“ Over the past quarter between geopolitics, inflation, and rising prices, debt markets have become more volatile all while equity investors are more nervous to invest due to the uncertainty of where the market is headed.”

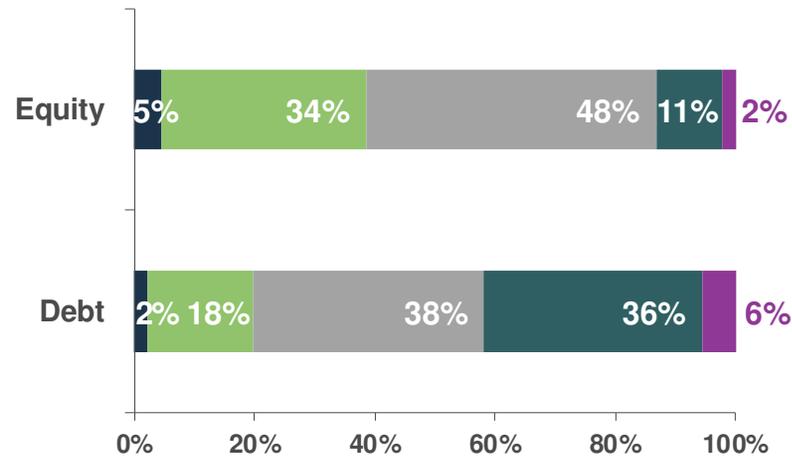
Exhibit 4

Availability of Capital

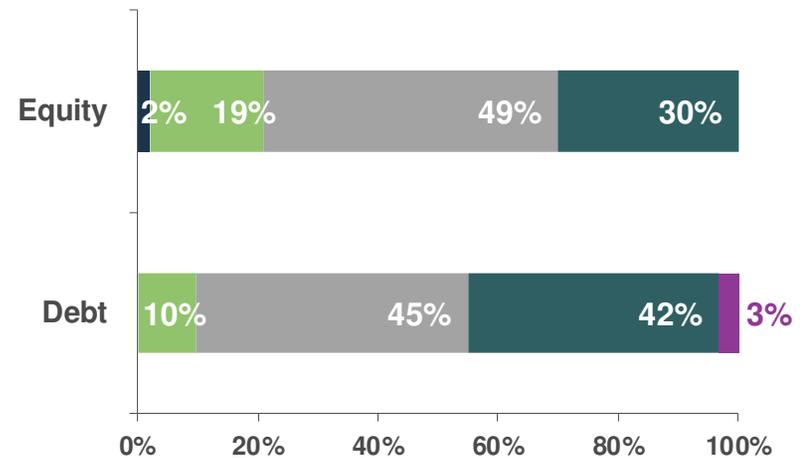
% of respondents

● Much better ● Somewhat better ● About the same ● Somewhat worse ● Much worse

Today vs. One Year Ago



One Year From Now vs. Today



Participants

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

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