



Fourth Quarter 2022

# The Real Estate Roundtable Sentiment Index

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The Real Estate Roundtable is pleased to announce the results from the Q4 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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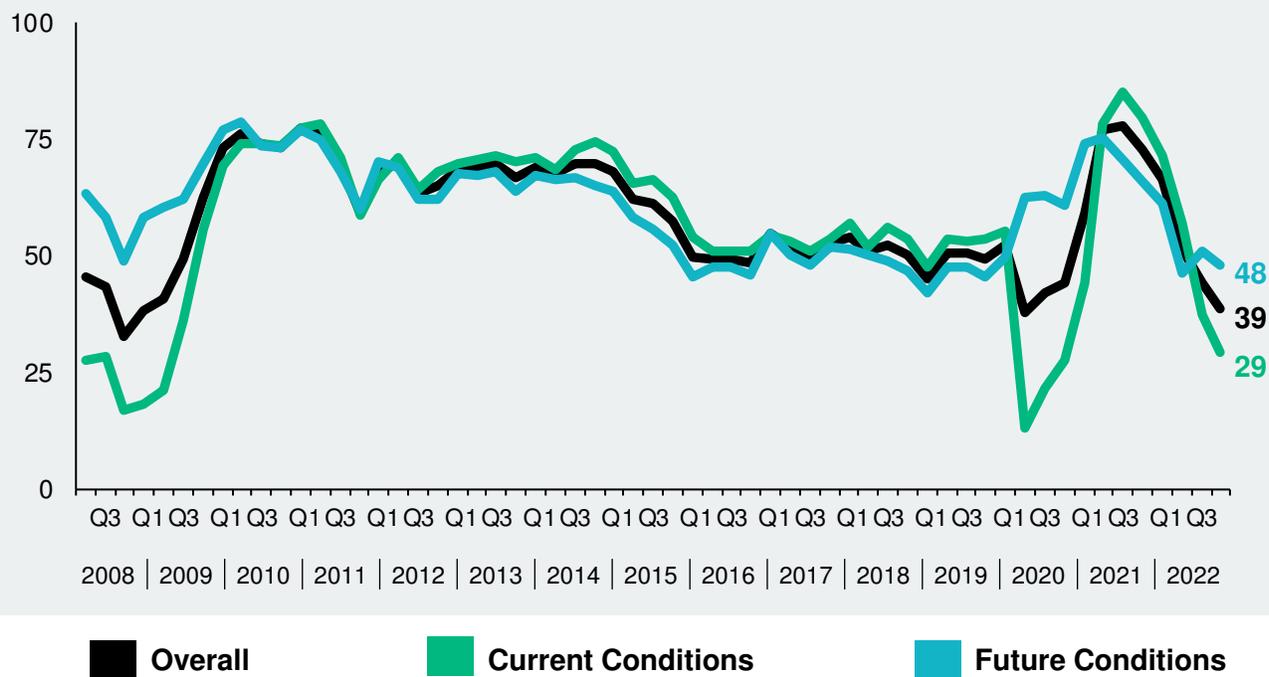
## Topline Findings

- The Q4 2022 Real Estate Roundtable Sentiment Index registered an overall score of 39, a decrease of five points from the previous quarter. The Current Index registered 29, a nine-point drop from Q3 2022, and the Future Index posted a score of 48 points, a dip of three points from the previous quarter.
- Seventy-eight of respondents believe that general market conditions today are “somewhat worse or much worse” versus one year ago, while 70 percent anticipate current conditions will continue or get worse one year from now.
- Survey respondents noted a reduced number of transactions across all asset classes, including multifamily and industrial. However, some specialty assets such as logistics and biomanufacturing are seen as rising stars emerging from this period of economic uncertainty.
- Survey respondents found it difficult to comment on pricing due to fewer transactions. However, 92 percent believe that real estate asset values compared to one year ago are “somewhat lower or much lower” as investors cautiously eye the economy.
- In comparison with last year, 76 percent of participants said equity availability was “somewhat worse or much worse”—and 97 percent said availability of debt capital was worse.
- While current capital availability is sparse, real estate industry leaders reported some optimism about future availability of capital. Forty-eight percent expect debt financing will be somewhat better this time next year whereas 43 percent said the availability of equity will be somewhat better one year from now.

<sup>1</sup> 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.

# The Real Estate Roundtable Sentiment Index

**Exhibit 1**



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# General Conditions

The Q4 2022 Real Estate Roundtable Sentiment Index registered an overall score of 39, a decrease of five points from the previous quarter. The Current Index registered 29, a nine-point drop from Q3 2022, and the Future Index posted a score of 48 points, a dip of three points from the previous quarter.

“The current state of the market is probably more challenging than during the pandemic. With borrowing rates higher than the returns and fears of a recessionary environment, it doesn't feel great.”

“Even though there are indicators of a coming recession, we have not had a slow down within our market. We're still feeling somewhat positive coming off a good year in 2021 and a strong start in 2022.”

“There are two sides of real estate right now. In the first half of the year, operating metrics were very strong for most sectors with rent spreads very reasonable and occupancy and tenant demand high. On the flip side, financing in the capital markets is very difficult and the loan to value ratios and interest rate spreads are much greater than a year ago.”

“There's too much ambiguity in the industry that makes it difficult to model. As a result, everyone has paused as we wait to see if the Fed is going to indicate a lower rate.”

“Investing internationally is unpredictable. Although the UK is akin to the US in government and economics, there's a currency risk and economic upheaval across the pond.”

“The market is recalibrating. In some cases, cap rates have risen as little as 25 bps and in others, as much as 125 bps, generally tied to interest rate increases.”

“The hiring market for the real estate industry is in an unprecedented place. On one hand, we are still seeing labor shortages, especially at the property level, and even in infrastructure positions such as IT and accounting. On the other hand, in investments, we will be testing the creativity of a new class of professionals who entered the workforce post-Global Financial Crisis.”

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# General Conditions (continued)

Survey respondents noted a reduced number of transactions across all asset classes, including multifamily and industrial. However, some specialty assets such as logistics and biomanufacturing are seen as rising stars emerging from this period of economic uncertainty.

“We’re starting to see cracks in multifamily’s façade. Although this asset class remains strong, if there is a recession, we will be watching job growth closely. As savings rates decline, that may result in the elevation of bad debt in 2023.”

“Demand for logistics real estate remains healthy. There is a little bit of moderation; where we once were at a 10, perhaps the demand is now at an 8 or a 9. We’re still seeing rent acceleration, even if it has slowed.”

“The accelerated pace of interest rate growth and the lack of available equity and debt for office properties have brought the industry to a halt. Brand new, Class A properties still attract lenders, but besides those select few assets, transactions have drastically slowed down.”

“The capital appetite for retail hasn’t returned and this asset class has suffered more than other capital markets. As the market slows, impacting retail businesses, retail leasing will also be impacted. Until some of the retail properties get repurposed or turned into mixed-use buildings, a shadow will continue to loom over this asset class.”

“Specialty housing, like student and affordable housing, will be interesting to watch. There’s a naturally occurring place for affordable housing with opportunities for strong rent growth; in student housing, there is usually demand for properties close to campus.”

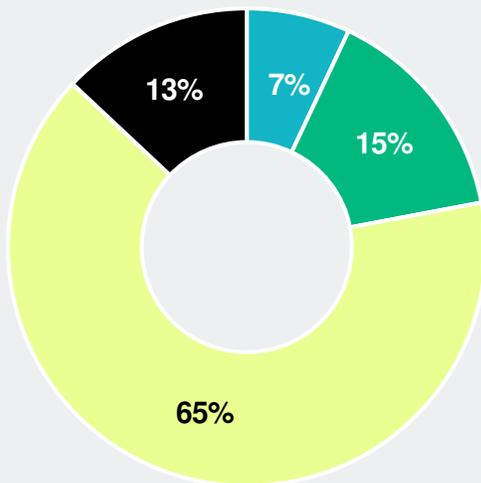
“Life sciences are drying up on the debt side, but from an equity perspective, investors are still interested. They believe the demand equation is still strong and are willing to make bets, especially with BMFs (bio manufacturing facilities).”

# General Market Conditions

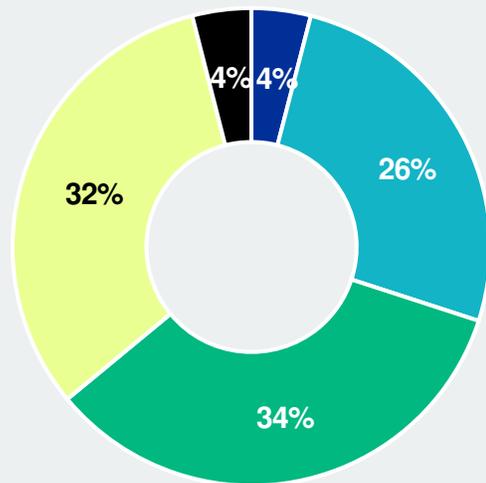
% of respondents

**Exhibit 2**

**Today vs.  
One Year Ago**



**One Year From  
Now vs. Today**



■ Much better    ■ Somewhat better    ■ About the same    ■ Somewhat worse    ■ Much worse

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# Asset Values

Survey respondents found it difficult to comment on pricing due to fewer transactions. However, 92 percent believe that real estate asset values compared to one year ago are “somewhat lower or much lower” as investors cautiously eye the economy.

“It’s currently impossible to give perceptions on asset pricing. There have been so few trades in commercial real estate in recent memory that we’re in a price discovery period. That said, appraisals are very conservative because people are unsure.”

“Values have declined 10-15% from 6 months ago and the complex properties have lost even more value.”

“Industrial asset values are still healthy, but valuations are under pressure. By year end, there will be declines of as much as 5% in these asset values, partially due to rates of return moving dramatically but mitigated by continued rent growth in the sector.”

“For local, smaller properties, cap rates aren’t moving too much yet. On the flip side, for larger assets, there are huge increases in cap rates.”

“The public and private markets look drastically different from each other. The public real estate market is already down 30%, due to both hysteric and non-dedicated investors. As the Fed raises rates into 2023, the private real estate market will start to adjust 18 months after.”

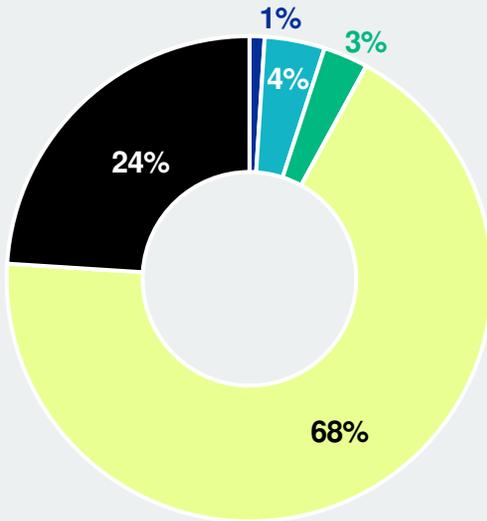
“Asset pricing will stabilize as soon as interest rates stabilize. Historically when interest rates have risen, it takes 12 – 24 months to make their way through the industry and everything will be repriced.”

# Real Estate Asset Values

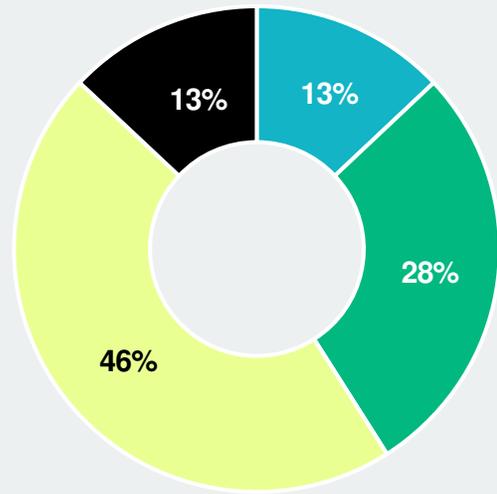
% of respondents

**Exhibit 3**

**Today vs.  
One Year Ago**



**One Year From  
Now vs. Today**



■ Much Higher    ■ Somewhat higher    ■ About the same    ■ Somewhat lower    ■ Much lower

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# Capital Markets

While current capital availability is sparse, real estate industry leaders reported some optimism about future availability of capital. Forty-eight percent expect debt financing will be somewhat better this time next year whereas 43 percent said the availability of equity will be somewhat better one year from now.

“The price of capital has gone up and the availability has gone down. This shift in capital availability will ultimately have a fairly big impact on supply in the markets next year.”

“Because of the Global Financial Crisis, banks have been asked to top up their reserves and as a result, they’re pulling back from the real estate market. There are medium and small-sized banks still out there, but they don’t sum to a meaningful amount of capital.”

“Equity investors are becoming more cautious with a “risk-off” sentiment. Although no one is trying to get out of deals, people are hesitant.”

“Short term, there will be much less debt, but the industry will solve for that long term with private lenders, albeit with more unknowns. The sub debt world may also rise, but the market will need to do more research on unregulated lenders in order to finance projects.”

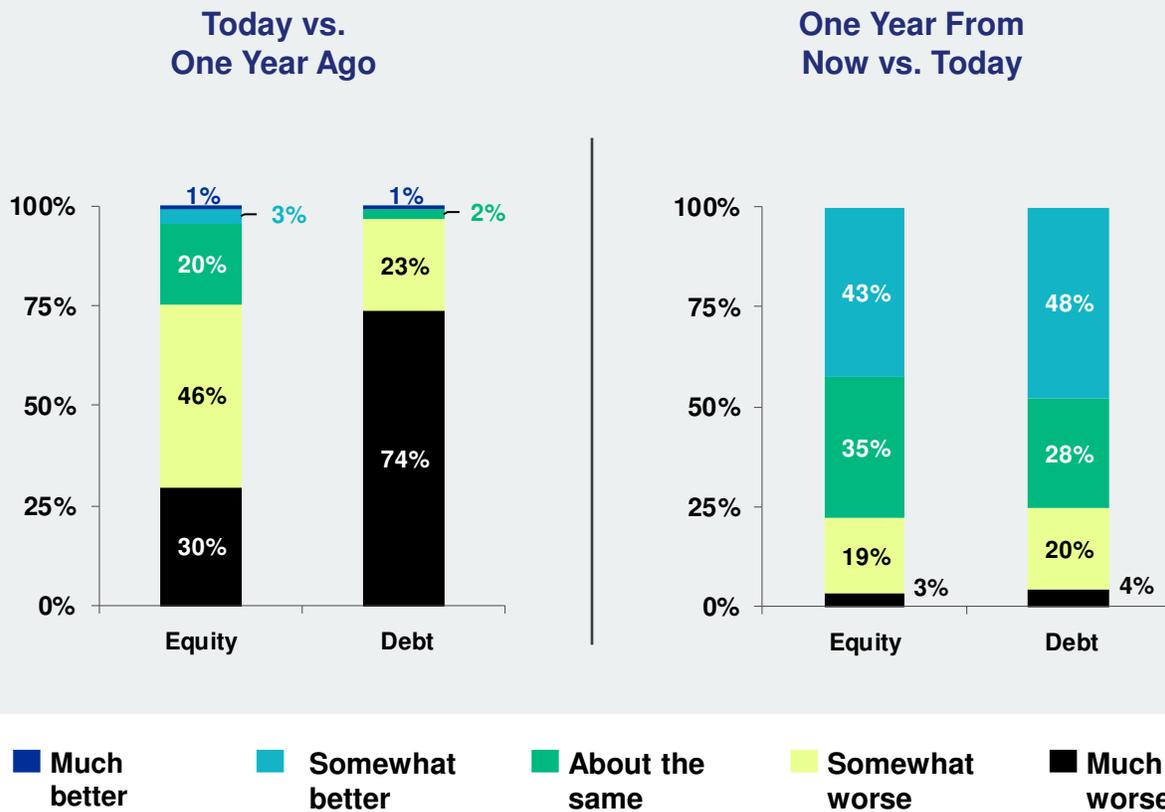
“Foreign capital has entered the US market larger than ever before, and they will continue to do so. Investors want to be in the real assets industry, but that will come with its own challenges because they will have different needs than US investors.”

“There is still a lot of equity capital out there, but without clarity of where the market is headed, it’s difficult to continue operating as before. LPs want to be cautious and see how the industry adapts to market conditions, adding more work for the investment managers.”

# Availability of Capital

% of respondents

**Exhibit 4**



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# Participants

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

Jonah Sonnenborn  
**Access Industries**

Warren Wachsberger  
**AECOM Capital**

Reid Liffmann  
**Angelo, Gordon & Co.**

Louis Haddad  
**Armada Hoffler Properties, Inc.**

Mark E. Rose  
**Avison Young**

Joe Marconi  
**Bain Capital Real Estate**

Jeffrey Horowitz  
**Bank of America Merrill Lynch**

Rudy Prio Touzet  
**Banyan Street Capital**

Schecky Schechner  
**Barclays**

Eliza Bailey  
**Belay Investment Group**

Justin Wheeler  
**Berkadia**

Henry Chamberlain  
**BOMA -Building Owners & Managers Association Intl.**

Michael W. Brennan  
**Brennan Investment Group**

Christian Young  
**Bridge Investment Group**

Charles Davidson  
**Brookdale Group, The**

Owen D. Thomas  
**BXP**

Douglas Pasquale  
**Capstone Enterprises Corp.**

Robert Stern  
**Castle Hill Investors**

Stephen Lebovitz  
**CBL & Associates Properties, Inc.**

Alan Gosule  
**Clifford Chance, LLP**

Timothy G. Wallace  
**Community Healthcare Trust, Inc.**

Steven DeFrancis  
**Cortland**

Bradley Razook  
**CSCA Capital Advisors, LLC**

Barbi Reuter  
**Cushman & Wakefield | PICOR**

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

Charles Wurtzebach  
**DePaul University**

A. William Stein  
**Digital Realty Trust**

Jay Epstein  
**DLA Piper**

Jordan Kaplan  
**Douglas Emmett, Inc.**

Daniel M. Neidich  
**Dune Real Estate Partners LP**

Anthony E. Malkin  
**Empire State Realty Trust, Inc.**

Mark Parrell  
**Equity Residential**

Frank G. Creamer, Jr.  
**FGC Advisors, LLC**

Leslie G. Callahan III  
**First Colony Financial Corp.**

Peter E. Baccile  
**First Industrial Realty Trust, Inc.**

Alex Klatskin  
**Forsgate Industrial Partners**

Chaim Katzman  
**Gazit Group USA, Inc.**

Jonathan J. Ofer  
**Global Holdings Management (US)**

Randall K. Rowe  
**Green Courte Partners, LLC**

Robert Ivanhoe  
**Greenberg Traurig, LLP**

Theodore J. Klinck  
**Highwoods Properties, Inc.**

Ross Perot, Jr.  
**Hillwood**

Dean Parker  
**Hinshaw & Culbertson LLP**

David O'Reilly  
**Howard Hughes Corp., The**

William S. Janes  
**Iron Point Partners, LLC**

Scott Arnold  
**Iron Tree Capital**

Guy Johnson  
**Johnson Capital Group, Inc.**

Geordy Johnson  
**Johnson Development Associates, Inc.**

Conor Flynn  
**Kimco Realty Corp.**

Ralph Rosenberg  
**KKR**

Peter McDermott  
**KSL Capital Partners, LLC**

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# Participants (continued)

Michael H. Lowe  
Robert J. Lowe  
**Lowe**

Edward C. Coppola  
**Macerich**

Kevin McMeen  
**MidCap Financial LLC**

James H. Miller  
**Miller Global Properties**

Murray McCabe  
**Montgomery Street Partners**

Taylor Pickett  
**Omega Healthcare Investors, Inc.**

Thomas J. Baltimore, Jr.  
**Park Hotels & Resorts**

William Lindsay  
**PCCP**

Timothy Berry  
**Pennybacker Capital**

John W. Murray  
**PIMCO**

Todd Everett  
**Principal Real Estate Investors**

Eugene F. Reilly  
Hamid R. Moghadam  
**Prologis**

Stephen Congel  
**Pyramid Companies, The**

Martin E. Stein, Jr.  
**Regency Centers**

Richard S. Ziman  
**Rexford Industrial Realty, Inc.**

Daniel J. Moore  
**Rockefeller Group International, Inc.**

Scott Rechler  
**RXR**

JR Pearce  
**Sacramento County Employees'  
Retirement System**

Brandon Shorenstein  
**Shorenstein**

Marty Burger  
**Silverstein Properties**

Marc Holliday  
**SL Green Realty Corp.**

Jeffrey Dishner  
**Starwood Capital Group**

Randall Eggert  
**State of Wisconsin Investment  
Board**

Rick Buziak  
**Swift Real Estate Partners**

Michael A. Covarrubias  
**TMG Partners**

Mike Lafitte  
**Trammell Crow Co.**

Doug Prickett, CRE  
**Transwestern**

Jeffrey Zabel  
**Tufts University - Department of  
Economics**

Thomas W. Toomey  
**UDR**

Gary M. Tischler  
**Vanbarton Group**

Glenn Rufrano  
**VEREIT**

Walker Noland  
**Virginia Retirement System**

Willy Walker  
**Walker & Dunlop**

Kara McShane  
**Wells Fargo**

Donald Ankeny  
**Westcore**

Edward Peterson  
**Winstead P.C.**

# Contact

Please direct all inquiries regarding this study to:



## Scott McIntosh

Director, Managing Consulting  
Ferguson Partners  
+1 (312) 893-2366  
[smcintosh@fergusonpartners.com](mailto:smcintosh@fergusonpartners.com)



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Market Square West  
801 Pennsylvania Ave NW  
Suite 720  
Washington, D.C. 20004

Tel: 202.639.8400  
Fax: 202.639.8442

[www.rer.org](http://www.rer.org)



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