First Quarter 2023

The Real Estate Roundtable Sentiment Index

Ferguson Partners

The Real Estate Roundtable

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The Real Estate Roundtable is pleased to announce the results from the Q1 2023 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:

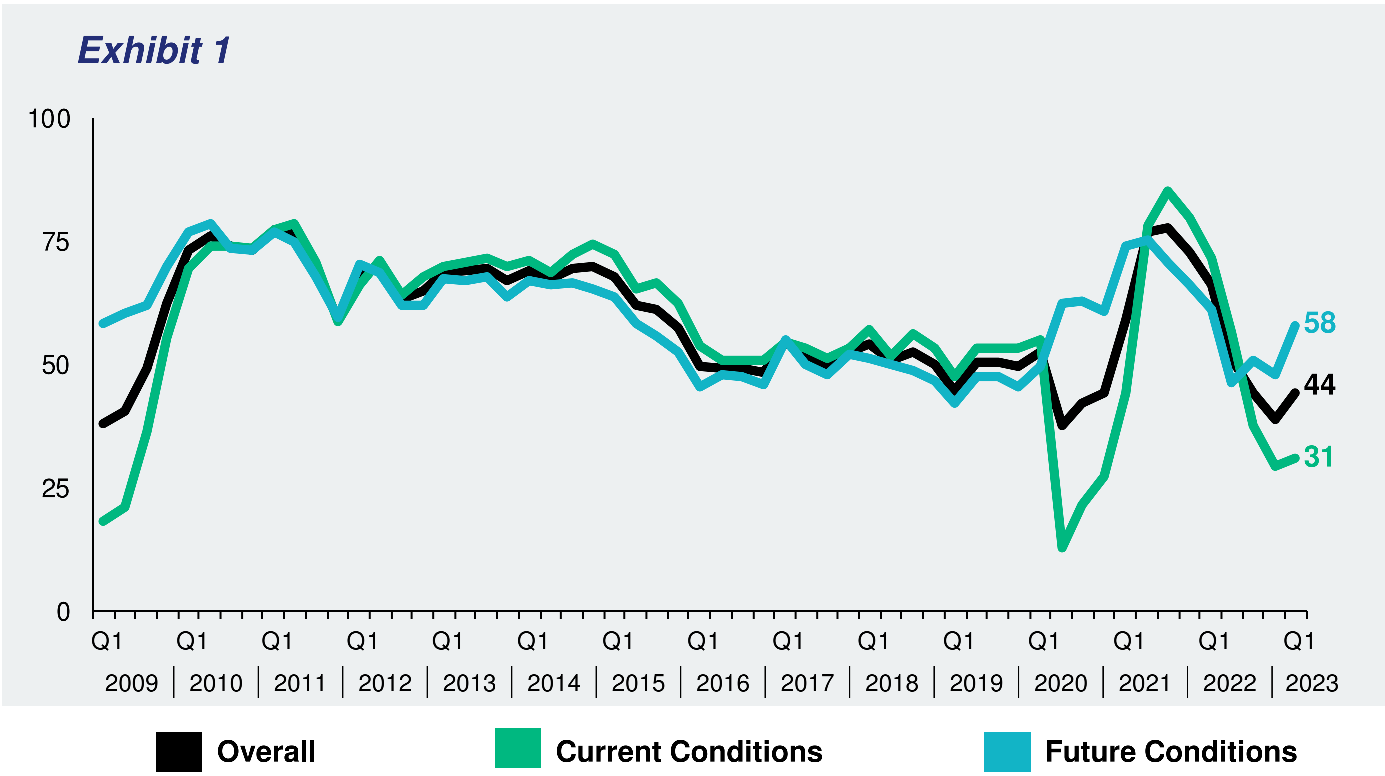
1. Overall real estate conditions
2. Access to capital markets
3. Real estate asset values

Topline Findings

- The Q1 2023 Real Estate Roundtable Sentiment Index registered an overall score of 44, an increase of five points from the previous quarter. The Current Index registered 31, a two-point increase from Q4 2022, and the Future Index posted a score of 58 points, an increase of ten points from the previous quarter.
- Several survey respondents acknowledged the dangers of generalizing trends across the commercial real estate industry as the disparities between asset classes grow; multifamily and industrial continue to attract interest, hospitality and student housing are beginning to bounce back, meanwhile Class B office is struggling.
- Nearly all survey participants (93%) expressed that asset values have fallen year-over-year. That said, conversations with industry leaders suggest that the market is still in a period of price discovery. With low transaction volume and a limited supply of debt capital, there is lingering uncertainty as to where asset prices will ultimately land.
- Survey participants overwhelmingly indicated that the availability of debt and equity capital is worse today compared to one year ago (93% and 82% respectfully). However, over half of participants expect the capital markets landscape to improve over the next 12 months.

[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.

The Real Estate Roundtable Sentiment Index



General Conditions

The Q1 2023 Real Estate Roundtable Sentiment Index registered an overall score of 44, an increase of five points from the previous quarter. The Current Index registered 31, a two-point increase from Q4 2022, and the Future Index posted a score of 58 points, an increase of ten points from the previous quarter.

> “The bid-ask spreads between the sellers’ expectations and the buyers’ appetite to invest do not create a robust market. Many products are in a ‘flat spin’ and the first half of 2023 does not look promising.”

> “A year from now, I believe the prospects will look better than the past few months. People who were on the sidelines are eager for an opportunity to deploy capital.”

> “Transactions are highly impacted by the refinancing environment. Not only in terms of the banks’ willingness to lend, but with absolute interest rates being higher, which in turn hurts internal rates of return.”

> “Development-wise, the labor market has loosened up, but the supply chain is still dysfunctional. Construction costs and borrowing costs have both risen, leading many groups to restructure their deals.”

> “The current conditions are a shock to our system. As firms wait on the Federal Reserve, there’s no clarity on pricing and everyone is wondering if it’s going to be a hard landing or a soft landing. Most people are optimistic that this will not be a long recession.”

> “This is not like the Global Financial Crisis of 2008 for a couple reasons. First, most firms are not overleveraged. Second, firms still have capital to invest, there’s just a higher threshold required to invest than in the past few years.”

> “The regulatory backdrop is always a point of concern, especially regarding ESG. Firms are threading the needle between common sense and business sense.”

General Conditions (continued)

Several survey respondents acknowledged the dangers of generalizing trends across the commercial real estate industry as the disparities between asset classes grow; multifamily and industrial continue to attract interest, hospitality and student housing are beginning to bounce back, meanwhile Class B office is struggling.

“Long term, multifamily will be fine as it continues to perform well, especially relative to housing prices. However, values are down 20–25% from their peak pricing and rent increases are starting to slow down, especially in markets with lots of new products, leading to a choppy 2023.”

“Industrial continues to attract capital. With the continuing supply chain issues, businesses need industrial space, especially on the East Coast near ports and rail lines. In areas with quick access by rail, water, or plane, industrial is still strong.”

“In positive news for hospitality, experiential travel has seemed to have a sustained level of demand, especially on ‘shoulder days’ like Fridays and Mondays. On the flip side, corporate travel remains lower than in the pre-COVID era and operational costs have increased, curbing the margins for hotels.”

“Student housing took a hit during the pandemic, but it bounced back. During recessions, people go back to school, so there may be an increase in demand.”

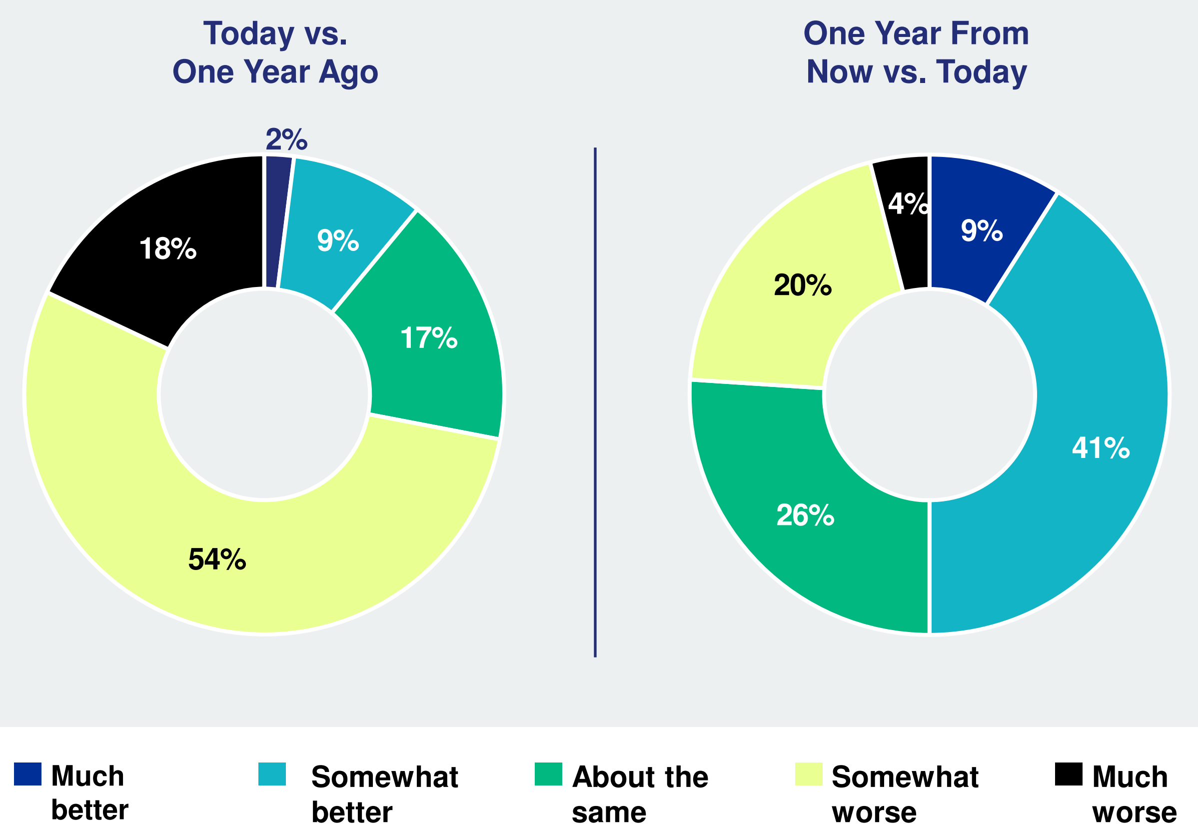
“Retail is very submarket driven. Local, small retail is holding up, but big box is suffering unless it’s a neighborhood grocery store.”

“Office continues to be a tale of two cities. High amenity buildings can draw workers back into the office, but Class B is concerning. In Europe and APAC, the demand for office space and desire to work in an office environment is much more prevalent compared to the US.”

“Office buildings are facing the toughest environment in at least a generation with a ‘perfect storm’ brewing of (i) rising interest rates, (ii) a slowing economy, and (iii) a work from home policy that isn't going away.”

General Market Conditions
% of respondents

Exhibit 2



Asset Values

Nearly all survey participants (93%) expressed that asset values have fallen year-over-year. That said, conversations with industry leaders suggest that the market is still in a period of price discovery. With low transaction volume and a limited supply of debt capital, there is lingering uncertainty as to where asset prices will ultimately land.

“Asset pricing has improved slightly compared to last quarter. Compared to last year, however, it is down significantly. All roads lead back to the relative value of unleveraged and leveraged IRRs to the cost of CRE credit, risk free rates, etc. All these metrics suggest lower values going forward.”

“A combination of higher debt costs and the prospect for a recession with operational risks will lead to a drop in values in the near term.”

“Between the price of debt, volatility of valuations, and low confidence in the yield curve, if you polled a range of buyers and sellers, there would be a lack of clarity on the value of an asset.”

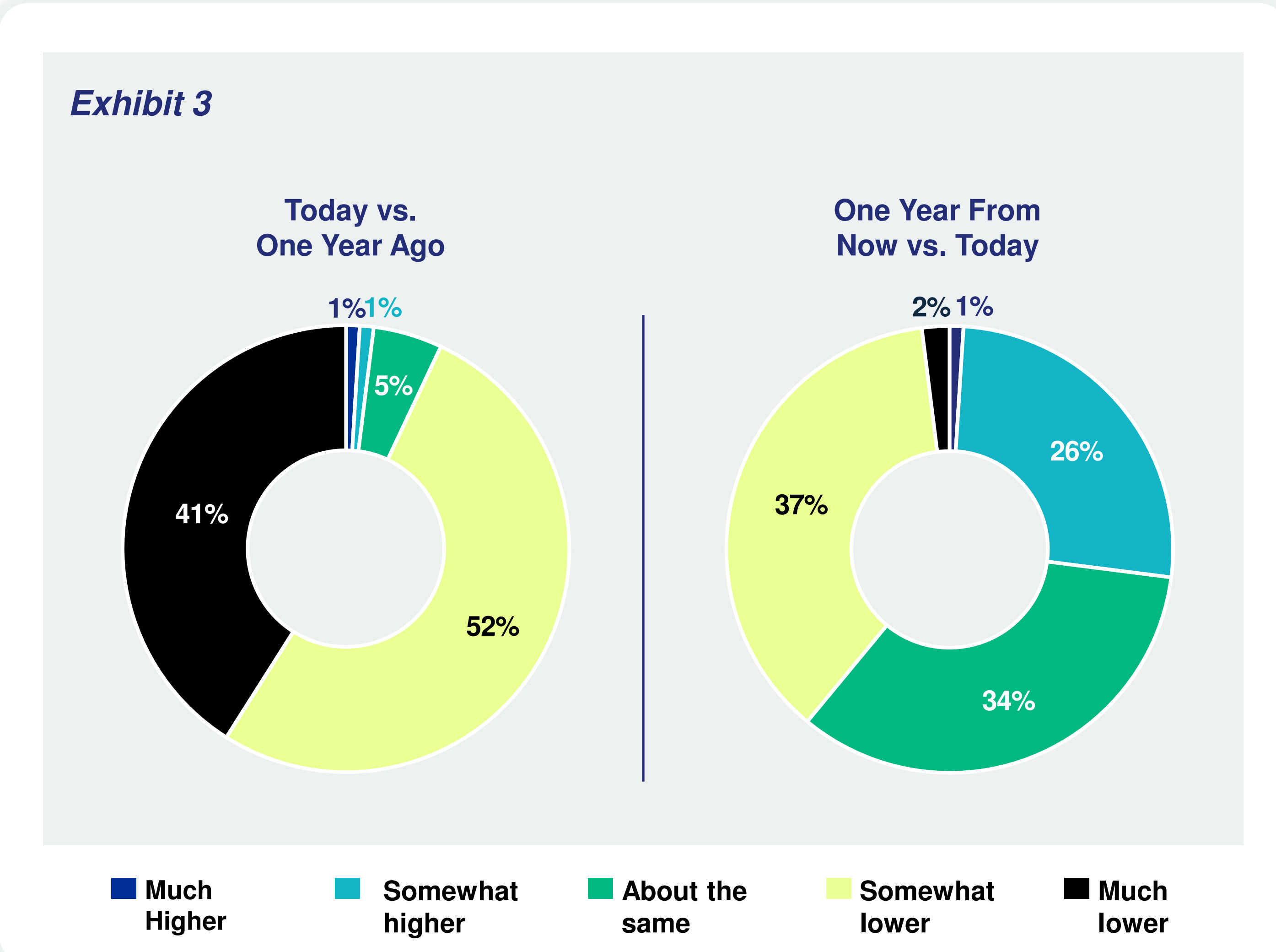
“Appraisals have not caught up to the rate adjustments yet, and as such, there is still a bit of price discovery in the market.”

“Cap rates are starting to rise, but it is still difficult to clearly understand. A lack of transactions and difficulty in locking in the price of debt leads to uncertainty around asset pricing.”

“The perception that long-term interest rates will remain elevated continues to place upward pressure on cap rates, especially for non-core properties.”

Real Estate Asset Values

% of respondents



Capital Markets

Survey participants overwhelmingly indicated that the availability of debt and equity capital is worse today compared to one year ago (93% and 82% respectfully). However, over half of participants expect the capital markets landscape to improve over the next 12 months.

“There is still a lot of equity capital in the system that is just sitting and waiting. Capital raising has slowed, not from a lack of demand for the asset class, but because of the denominator effect.”

“For institutional banks, the combination of tighter underwriting and limitations on real estate allocations makes the availability of debt from traditional lenders sparse. Until the securitization market reopens and banks work through their balance sheet exposure to real estate, banks will stick with their top customers.”

“The bond market had significant dislocation last year. Right now, it’s improving but still not back to normal – even Fannie Mae and Freddie Mac are pushing rates up and holding onto funding closer to the close date.”

“The lack of debt and equity for office investment is unprecedented. We also see head winds for other assets classes as spreads, rates, and hedge costs continue to rise.”

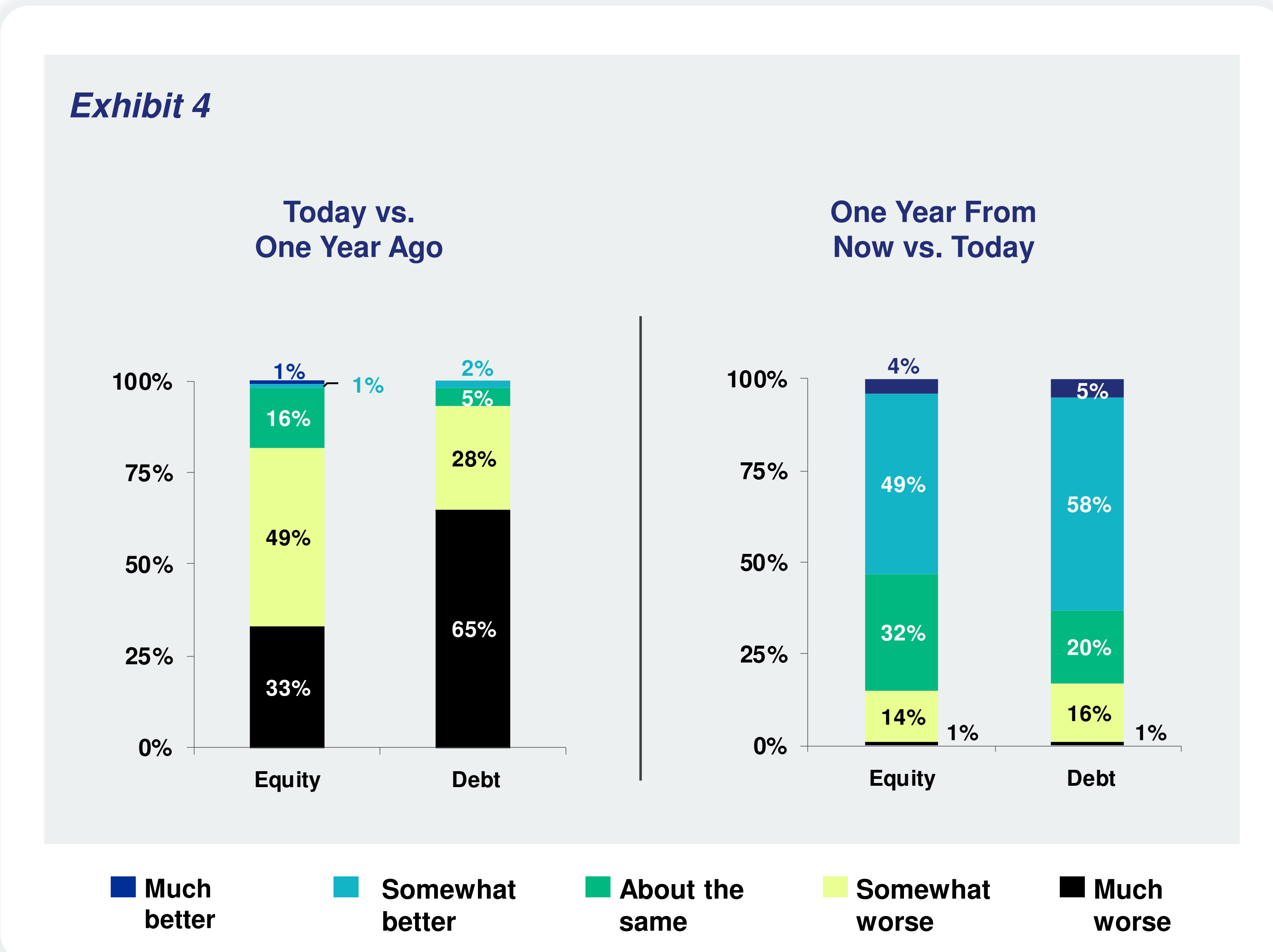
“Both private equity and high-net worth capital are bargain hunting and looking for unique repositioning opportunities.”

“A lot of the debt capital is coming from life companies who are required to invest a certain amount to keep their insurance certification. They’re going to have to lend somewhere but will have their pick of the deals.”

“Equity availability is very asset-specific. The largest pension and insurance investors won’t put money into office or retail, but are drawn to industrial, multifamily, and niche products.”

Availability of Capital

% of respondents



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