First Quarter 2024

The Real Estate Roundtable Sentiment Index

Ferguson Partners

The Real Estate Roundtable

The Real Estate Roundtable Sentiment Index[1]

The Real Estate Roundtable is pleased to announce the results from the Q1 2024 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 2024 Real Estate Roundtable Sentiment Index registered an overall score of 61, an increase of 17 points from the previous quarter. The Current Index registered 53, a 21-point increase over Q4 2023, and the Future Index posted a score of 70 points, an increase of 13 points from the previous quarter. These increases point to cautious optimism in the real estate market.

- There continue to be variations among asset classes and within specific property types as the real estate market rapidly changes. Industrial and multifamily are starting to soften, but retail and hospitality asset classes were identified as being surprisingly resilient. While many office properties have experienced a significant erosion in value, Class A office continues to outperform.

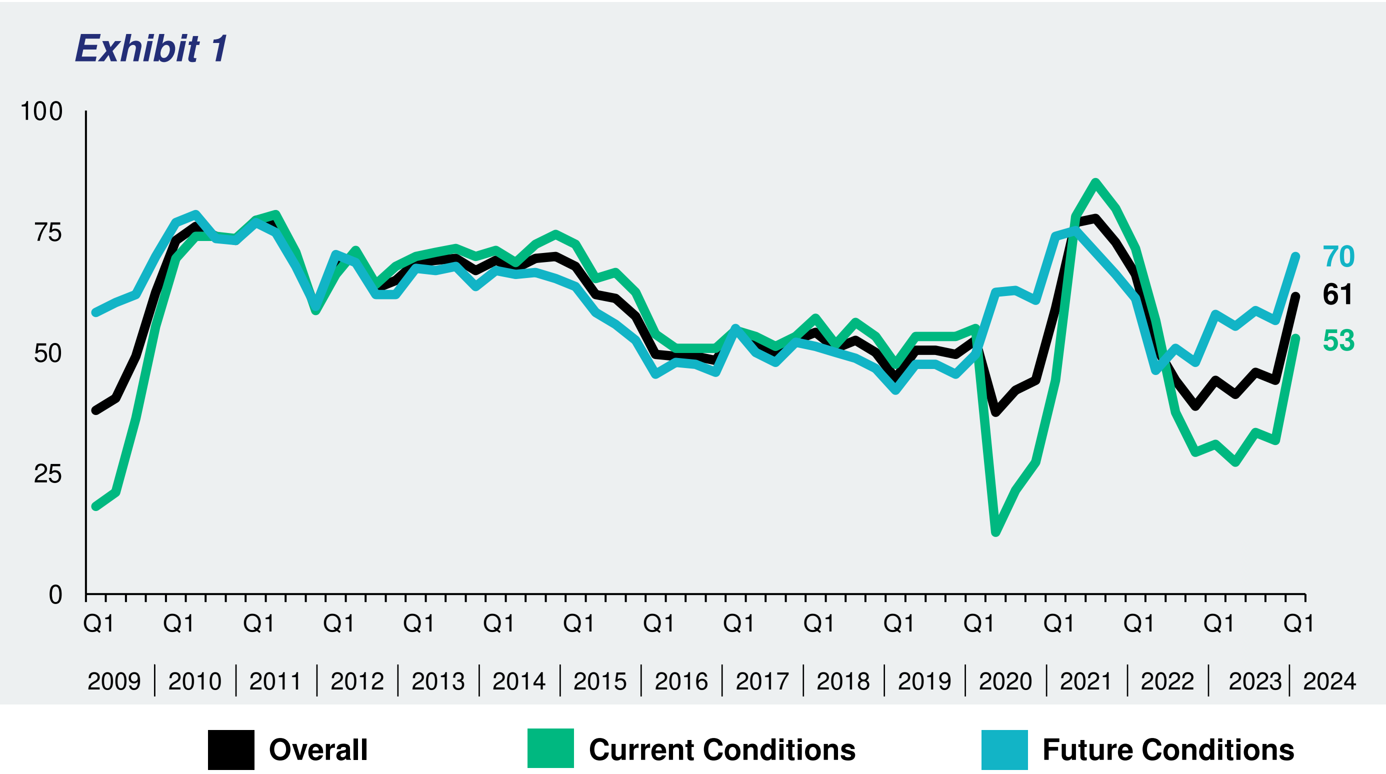
- An overwhelming 79% of survey participants indicate that asset values have decreased compared to the previous year. However, the potential end to interest rate hikes has instilled some industry optimism, with nearly 80% of survey participants expecting asset values to be the same or higher a year from now.

- Survey participants continue to emphasize the challenging capital markets landscape, with 86% and 85% of survey participants suggesting that the availability of equity and debt capital, respectively, is the same or worse than a year ago. That said, 67% and 76% believe the availability of equity and debt capital, respectively, will improve a year from now.

[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

Exhibit 1



- In the Q1 RER Sentiment Survey, participants rated the overall market conditions as a score of 61, current conditions as 53, and future conditions as 70
- Compared to one year ago, sentiments of current conditions are up by 22 points, perceptions of future conditions are up by 12 points, and overall conditions are up by 17 points
- In comparison to last quarter, sentiments on current conditions are up by 21 points, perceptions of future conditions are up by 13 points, and overall conditions are up by 17 points

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 2024 Real Estate Roundtable Sentiment Index registered an overall score of 61, an increase of 17 points from the previous quarter. The Current Index registered 53, a 21-point increase over Q4 2023, and the Future Index posted a score of 70 points, an increase of 13 points from the previous quarter. These increases point to cautious optimism in the real estate market.

“As interest rates have settled, people have felt better about the broader economy, and sentiment has improved massively. Many asset classes remain strong and prices haven’t dropped significantly. I’m more optimistic for 2024 than I was for 2023.”

“New developments are challenging, and construction cost pricing is something everyone is watching closely. While inflation has come down, pricing has not.”

“Insurance costs are skyrocketing – the average price increase is 50-150% annually, for usually reduced coverage. It’s a big issue and not an easy solution, especially if you’re in a flood zone.”

“Some deals just need to fail, some assets should never have been financed in the first place, and many buildings will need to come down in order to open up opportunities for redevelopment.”

“The tight labor market coupled with AI investment has changed our approach to staffing. We’re starting to provide more services using a centralized team instead of requiring so many people on site. So far, the results have been astonishing from an accuracy and effectiveness standpoint.”

“The fact that it’s an election year isn’t impacting investors as much as it should. In reality, we’re much more impacted day to day by local governments than anything at the national level.”

“Real estate, and the world economy more broadly, has benefitted greatly from a declining interest rate and cap rate environment. Now, we need to shift our strategy to create value for our owners and investors. Generating value from ownership and the operation of assets will be increasingly important, and that comes down to scale and how you utilize technology.”

General Conditions (continued)

There continue to be variations among asset classes and within specific property types as the real estate market rapidly changes. Industrial and multifamily are starting to soften, but retail and hospitality asset classes were identified as being surprisingly resilient. While many office properties have experienced a significant erosion in value, Class A office continues to outperform.

“In general, office is not necessarily overbuilt, but under-destroyed. However, top-tier office spaces will continue to outperform. They have greater pricing power than we’ve ever seen, and we expect more demand than supply.”

“There continues to be tremendous demand for affordable housing in the Low-Income Housing Tax Credit space. The challenge there involves finding enough local and municipal subsidies to close gaps in the capital stack so that those projects can move forward.”

“In industrial, the market has been overbuilt for the last couple of years, and demand is starting to slow down. We have yet to realize that, so there’s more pain to come as rents will start to go down and cap rates will start to go up.”

“Senior housing is really tough, largely due to insurance rates and staffing problems. The industry is dominated by ‘mom-and-pops,’ and I expect massive consolidation in the future.”

“I’m surprised at the continued strength of retail; I think it has great discipline as a sector. Grocery-anchored centers are performing well with some new construction there. However, I suspect it’s not an entirely rosy picture in the retail sector.”

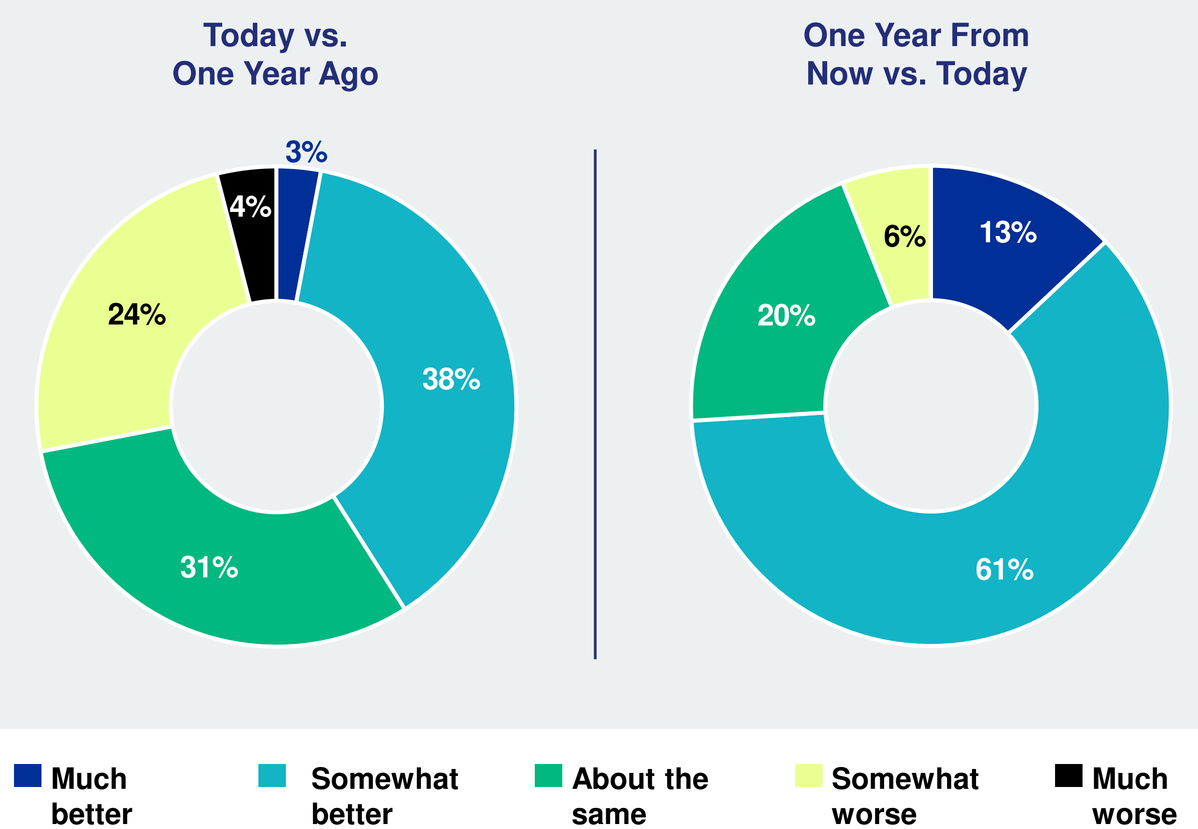
“Overall hospitality numbers will tell you that demand is relatively weak versus pre-pandemic, but I suspect hospitality is bifurcated between business conference hotels and leisure hotels. While resorts are packed, business travel isn’t back to pre-pandemic levels.”

“Multifamily is overbuilt in most markets, but there’s stronger demand than anybody had anticipated. We’re starting to see rent growth slowing as units continue to be delivered, but it will be a couple of years before we really see the effects of below-trend development.”

General Market Conditions

% of respondents

Exhibit 2



- Regarding sentiment on current market conditions, 28% believe it is a less favorable environment compared to one year ago, 41% feel it has improved, and 31% believe conditions remain the same
- This is fairly close to the Q1 2023 RER Sentiment Survey where 50% of participants believed that general market conditions would be better in Q1 2024
- Looking towards the future, 74% of participants believe that a year from now will present more favorable market conditions

Asset Values

An overwhelming 79% of survey participants indicate that asset values have decreased compared to the previous year. However, the potential end to interest rate hikes has instilled some industry optimism, with nearly 80% of survey participants expecting asset values to be the same or higher a year from now.

“It’s tough to value assets, but office buildings are down anywhere from 40-60% and multifamily assets are down 20%.”

“Based on asset class, prices are either moving sideways or slightly up thanks to a small lift with the recovery of the 10-year treasury. For industrial assets, as treasuries go up, cap rates go up.”

“Looking into the future, unless something happens from an interest rate or capital reallocation perspective, asset prices won’t increase much from where we’re at today.”

“Valuations that were driven by interest rate movements have bottomed; however, there are issues that exist beyond interest rates. Some office assets will be further devalued, and although most retail issues have sorted themselves out, some assets and markets will still decline.”

“From a long-term perspective, cap rates have continued to move up into high fives and low sevens for the multifamily industry.”

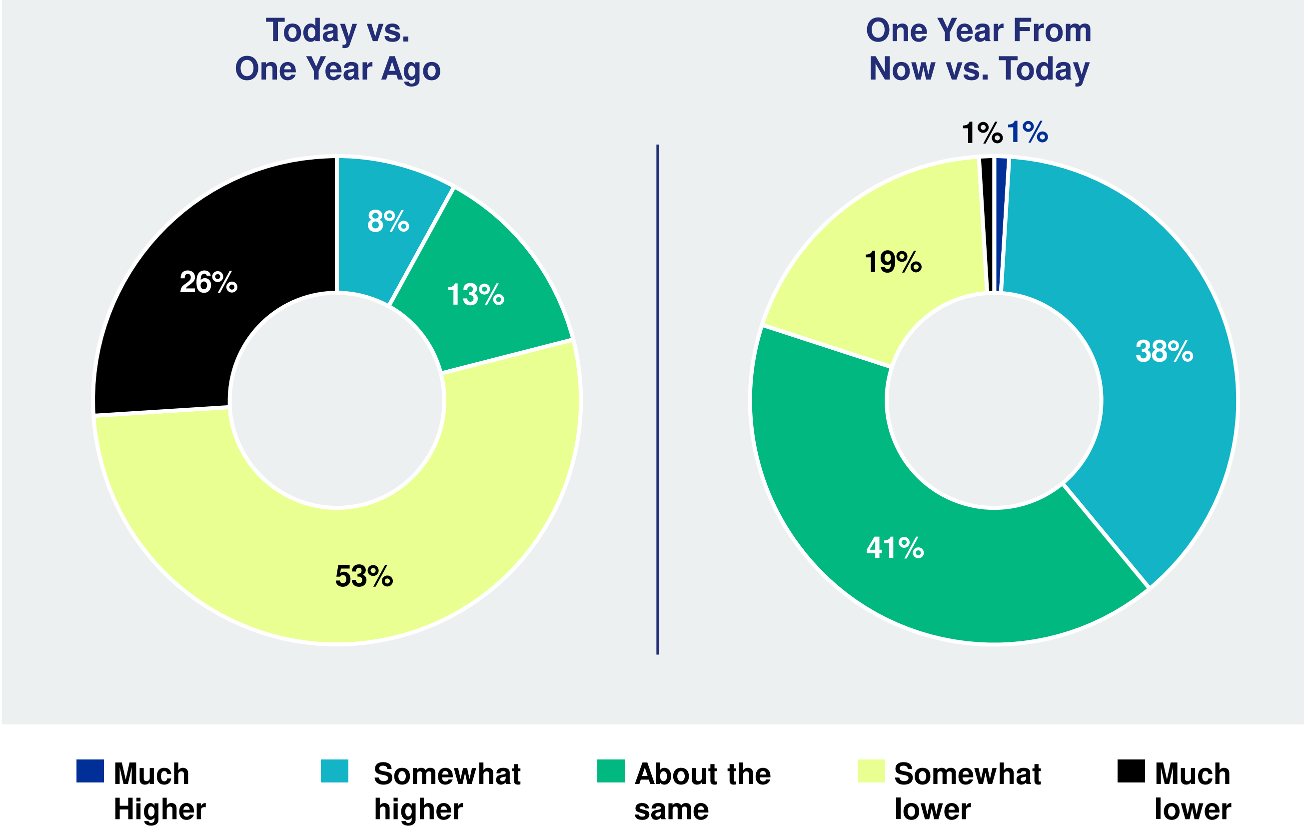
“With period-to-period investment sales activity down about 60%, I feel like I’m not in a position to comment on valuations yet.”

“Good hotels will continue to do well with compound annual grown rates improving, meaning upper 8 to low 10 returns in that space, which could be attractive.”

Real Estate Asset Values

% of respondents

Exhibit 3



- Regarding sentiment on the state of current asset values, 79% believe they are lower than one year ago, 8% feel they are higher, and 13% believe asset values have remained the same compared to a year ago
- This contrasts with the Q1 2023 RER Sentiment Survey where only 39% of participants believed that asset values would be lower in Q1 2024, indicating a steep decline in perceptions on asset values
- Looking towards the future, 39% of participants believe that a year from now will present more favorable asset values, 41% believe they will remain the same, and only 20% believe we will see lower asset values

Capital Markets

Survey participants continue to emphasize the challenging capital markets landscape, with 86% and 85% of survey participants suggesting that the availability of equity and debt capital, respectively, is the same or worse than a year ago. That said, 67% and 76% believe the availability of equity and debt capital, respectively, will improve a year from now.

> On the debt side, it's extremely difficult to get financing, even for the best projects. Bank balance sheets are largely 'pencils down' and banks are cautious for compliance purposes. There are prospects for securing debt, but instead of 20 options, there are four."

> Equity capital is available, but it's tougher to get, and the terms are not agreeable to either party. If we see more activity, a stronger economy, and improving interest rates, equity capital may bounce back. However, it's too early to tell."

> There is some fresh debt capital ready to be put to work and lenders are getting more confident. On the flip side, it's slow from a repayment perspective."

> Multifamily equity is worried about the macro-oversupply, but it is still possible to make the case for micro locations and dynamics within a submarket. With debt capital, it's not an availability issue. It's just not a good rate."

> While debt is still difficult, the public bond market is open and the bank market is starting to open back up, albeit at a higher cost."

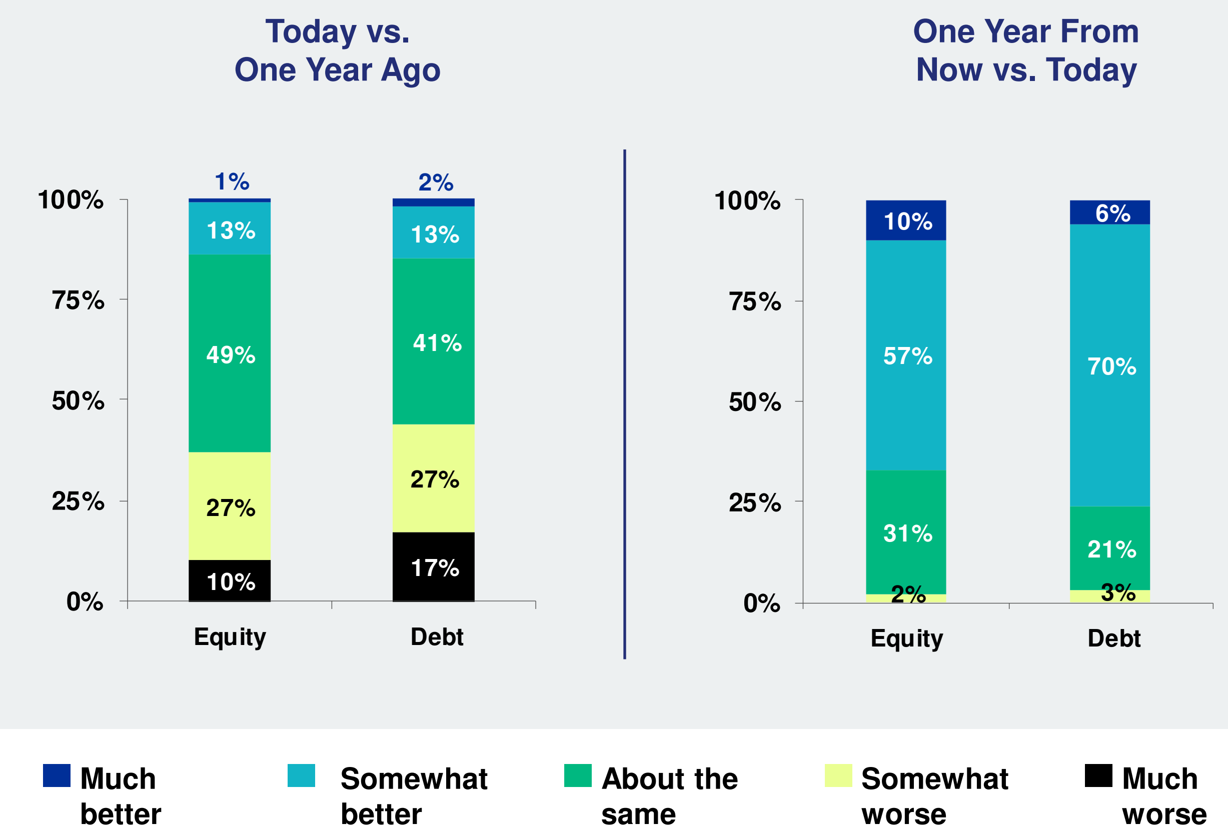
> Loan-to-value and loan-to-cost percentages are shifting dramatically as debt tries to price in the uncertainty, affecting the overall waterfalls and internal rates of return at our properties."

> There's still debt and equity for industrial."

Availability of Capital

% of respondents

Exhibit 4



- Regarding sentiment on the availability of equity capital, 37% believe it is worse compared to one year ago, 14% feel it has improved, and 49% believe the availability of equity remains the same
- In terms of the availability of debt capital, 44% of participants believe it is worse compared to one year ago, 15% feel it has improved, and 41% believe the availability of debt remains the same
- Looking towards the future, 67% and 76% of participants believe that equity and debt availability respectively will be better one year from now, 2% and 3% of participants believe that equity and debt availability respectively will be worse one year from now

Participants

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

Boyd Fellows
ACORE Capital

Warren Wachsberger
AECOM Capital

Steven Hason
APG Asset Management US Inc.

Jimmy Clark
Arthur J. Gallagher & Co.

Benjamin Schall
AvalonBay Communities, Inc.

Mark E. Rose
Avison Young

Joe Marconi
Bain Capital Real Estate

Leigh Roumila
Basis Investment Group

Eliza Bailey
Belay Investment Group

Alan King
Berkshire Residential Investments

Paul Vanderslice
BMO Capital Markets

Henry Chamberlain
BOMA -Building Owners & Managers Association Intl.

Christian Young
Bridge Investment Group

Robert Turner
Brookdale Group, The

Owen D. Thomas
BXP

Douglas Pasquale
Capstone Enterprises Corp.

Robert Stern
Castle Hill Investors

Stephen Lebovitz
CBL & Associates Properties, Inc.

Christopher R. Ludeman
CBRE, Inc.

Thomas Darden
Cherokee Investment Partners, LLC

Alan Gosule
Clifford Chance, LLP

Matthew G. Rocco, Sr.
Colliers Mortgage

Steven DeFrancis
Cortland

Kenneth J. Valach
Crow Holdings Development

Bradley Razook
CSCA Capital Advisors, LLC

Michael Hartmeier
Diamondrock Hospitality (Board)
Full House Resorts (Board)

Jordan Kaplan
Douglas Emmett, Inc.

Daniel M. Neidich
Dune Real Estate Partners LP

Jodie W. McLean
EDENS

Anthony E. Malkin
Empire State Realty Trust, Inc.

Peter E. Baccile
First Industrial Realty Trust, Inc.

Alex Klatskin
Forsgate Industrial Partners

Diane Hoskins
Gensler

Jonathan J. Ofer
Global Holdings Management (US)

Robert Ivanhoe
Greenberg Traurig, LLP

Jeffrey B. Citrin
Hectad Strategic Partners, LLC

Theodore J. Klinck
Highwoods Properties, Inc.

Sarah Hawkins
Hines

Dean Parker
Hinshaw & Culbertson, LLP

William S. Janes
Iron Point Partners, LLC

Guy Johnson
Johnson Capital Group, Inc.

Geordy Johnson
Johnson Group, The

Conor Flynn
Kimco Realty Corp.

Matt Salem
KKR

Peter McDermott
KSL Capital Partners, LLC

Matthew J. Lustig
Lazard

Harris Trifon
Lord, Abbett and Co.

Michael H. Lowe
Lowe

Edward C. Coppola
Macerich

Hessam Nadji
Marcus & Millichap

Matthew Cohen
Mesa West Capital

Kevin McMeen
MidCap Financial LLC

James H. Miller
Miller Global Properties

Thomas F. Moran
Moran & Co.

Participants (continued)

Greg Hrabcak
National Association of Realtors

Todd Liker
Oaktree Capital Management

Taylor Pickett
Omega Healthcare Investors, Inc.

Albert P. Behler
Paramount Group, Inc.

William Lindsay
PCCP

John W. Murray
PIMCO

Todd Everett
Principal Real Estate

Kim Snyder
Prologis

Peter Fass
Proskauer Rose LLP

Jerry Starkey
RE Partners International

Sumit Roy
Realty Income Corp.

Martin E. Stein, Jr.
Regency Centers

Leslie D. Hale
RLJ Lodging Trust

Adam Portnoy
RMR Group, The

Daniel J. Moore
Rockefeller Group International, Inc.

Scott Rechler
RXR

JR Pearce
Sacramento County Employees' Retirement System

Robert Plumb
Seven Sticks Capital Management

Marc Holliday
SL Green Realty Corp.

Benjamin S. Butcher
Stag Industrial

Randall Eggert
State of Wisconsin Investment Board

John F. Fish
SUFFOLK

Rick Buziak
Swift Real Estate Partners

Stephanie Ting
Swig Co., The

Hugh Allen
TD Bank

Michael A. Covarrubias
TMG Partners

Doug Prickett, CRE
Transwestern

Michael D. Brown
Travel & Leisure Co.

Thomas W. Toomey
UDR

Gary M. Tischler
Vanbarton Group

Walker Noland
Virginia Retirement System

Willy Walker
Walker & Dunlop

Kara McShane
Wells Fargo

Kenneth J. Bacon
Welltower

Michael Menzer
White Oak Partners

Contact

Please direct all inquiries regarding this study to:

Scott McIntosh

Director, Management Consulting
Ferguson Partners
+1 (312) 893-2366
smcintosh@fergusonpartners.com

About Ferguson Partners Consulting

We are problem solvers for the real assets industries helping our clients with the strategy, structure, and performance of their businesses, often at times of transition and transformation. Our service offerings include:

- Strategy & Market Positioning – Optimizing business strategy to compete in the market
- Organizational Design – Getting the right structure, roles, and people in place to execute the business plan
- Governance & Succession Planning – Planning around current and future leadership, ownership, governance, and decision making
- Operational Efficiency – Ensuring the performance of the business is optimized through rigorous assessments and benchmarking of staffing and financial results

Ferguson Partners

123 North Wacker Drive
Suite 2500
Chicago, IL 60606

Fax: 312.368.5088

www.fergusonpartners.com

About The Real Estate Roundtable

The Real Estate Roundtable brings together leaders of the nation's top publicly-held and privately-owned real estate ownership, development, lending and management firms with leaders of major national real estate trade organizations to jointly address key national policy issues relating to real estate and its important role in the global economy.

The collective value of assets held by Roundtable members exceeds $4 trillion. The Roundtable's membership represents more than 3 million people working in real estate; 12 billion square feet of office, retail and industrial space; over 4 million apartments; and more than 5 million hotel rooms. It also includes the owners, managers, developers and financiers of senior, student, and manufactured housing—as well as medical offices, life science campuses, data centers, cell towers, and self-storage properties.

The Roundtable's policy news and more are available on The Roundtable website.

The Real Estate Roundtable

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

Tel: 202.639.8400
Fax: 202.639.8442

www.rer.org