The Real Estate Roundtable Sentiment Index

First Quarter 2022

The Real Estate Roundtable

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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.

[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.”

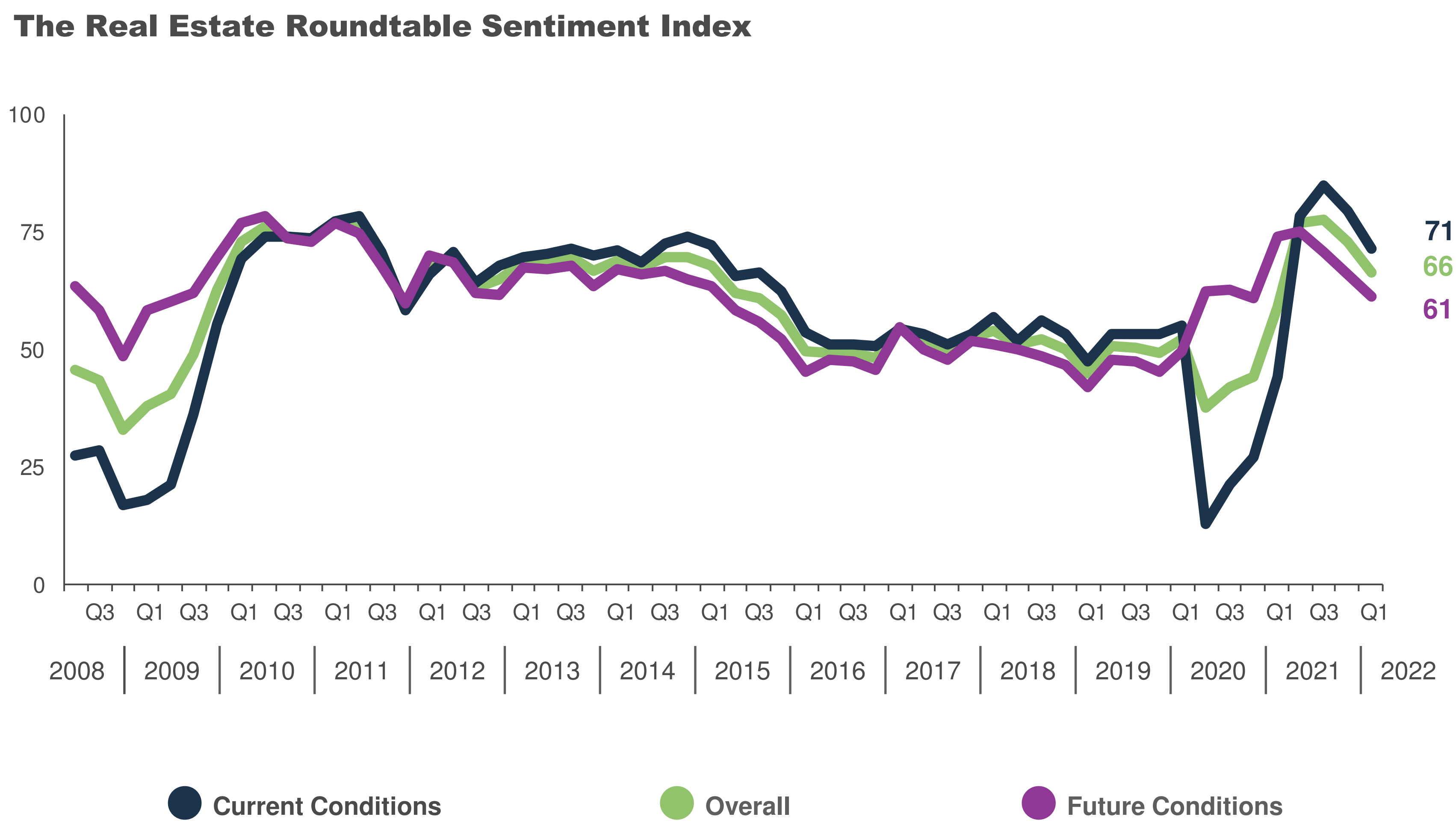
“Overall, the market outlook is favorable. Strong GDP growth, limited supply of assets (supply chain/inflation issues), robust credit availability, and lots of capital interested in real estate are all tailwinds for us. We are keeping our eye on interest rates, however.”

“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
100
75
50
25
0
Q3 Q1 Q3 Q1 Q3 Q1 Q3 Q1 Q3 Q1 Q3 Q1 Q3 Q1 Q3 Q1 Q3 Q1 Q3 Q1 Q3 Q1 Q3 Q1 Q3 Q1 Q3 Q1
2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022
71
66
61
Current Conditions
Overall
Future Conditions

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."

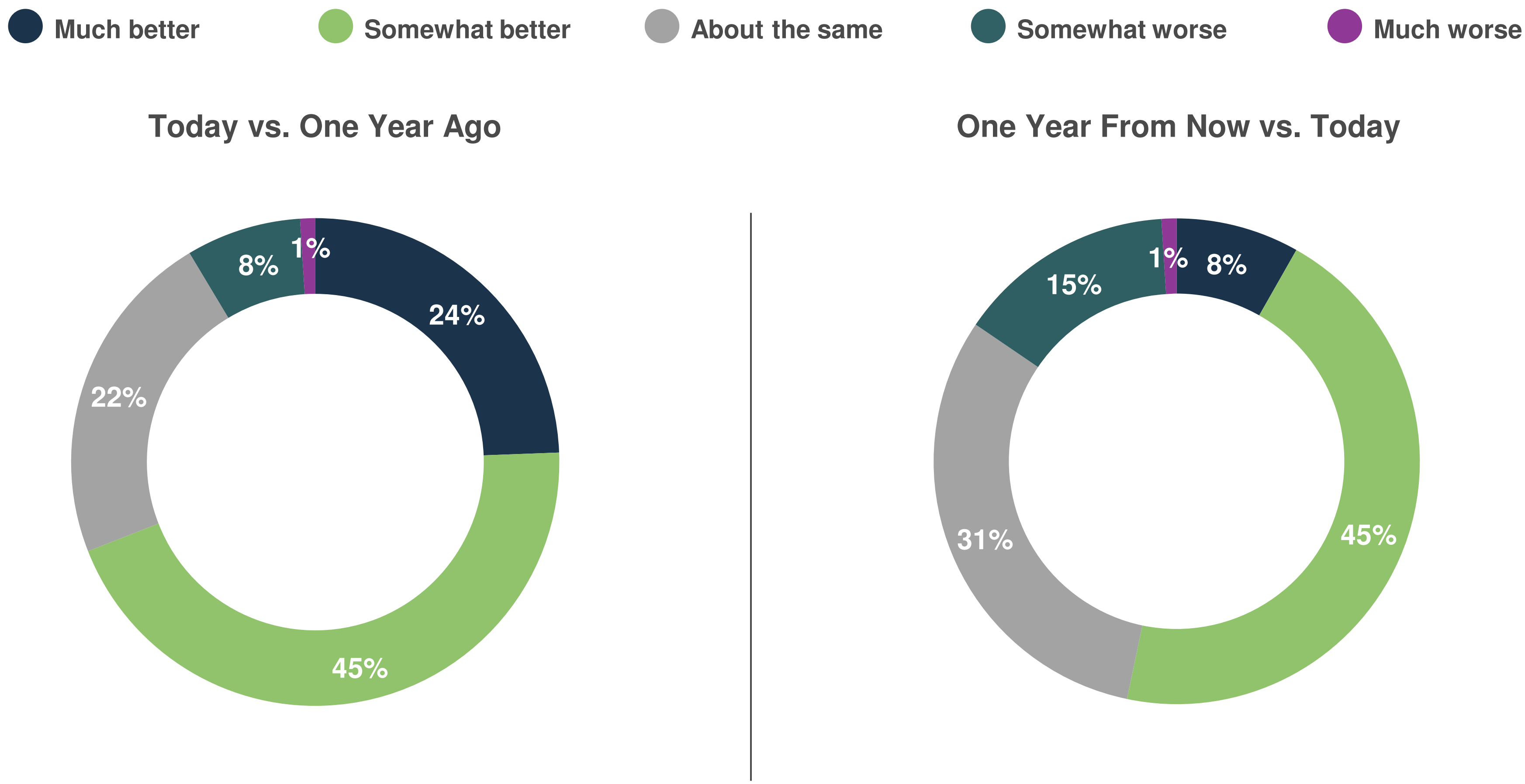
"Real estate will continue to be used as an inflation hedge and we expect demand to continue to grow over the next 12 months."

"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



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.”

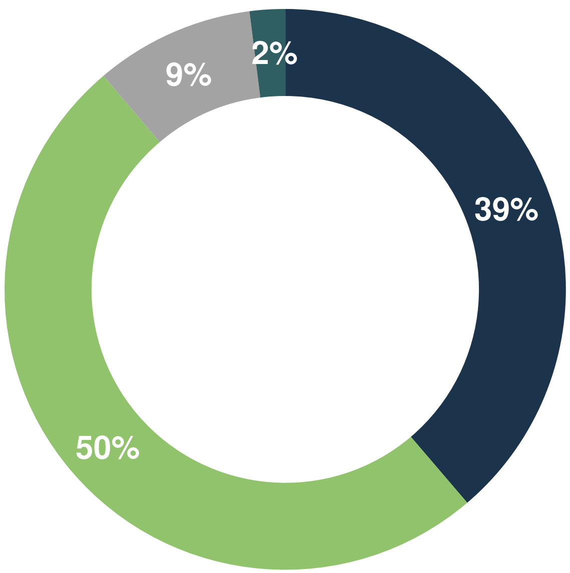
Exhibit 3

Real Estate Asset Values

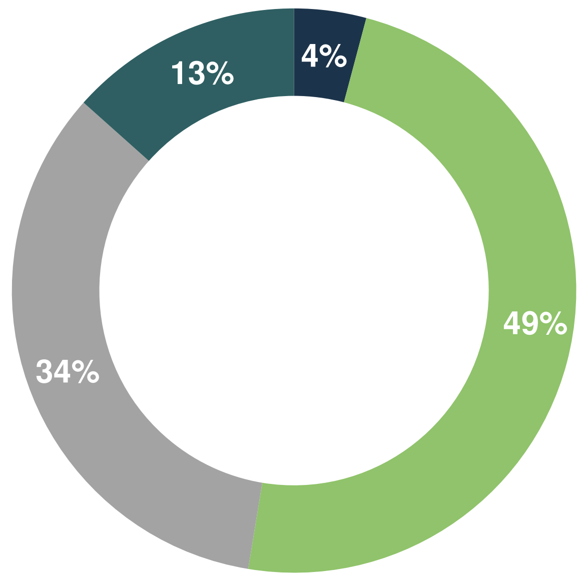
% of respondents

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 abundance of debt and equity capital and strong investor demand for real estate.

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

“There is 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.”

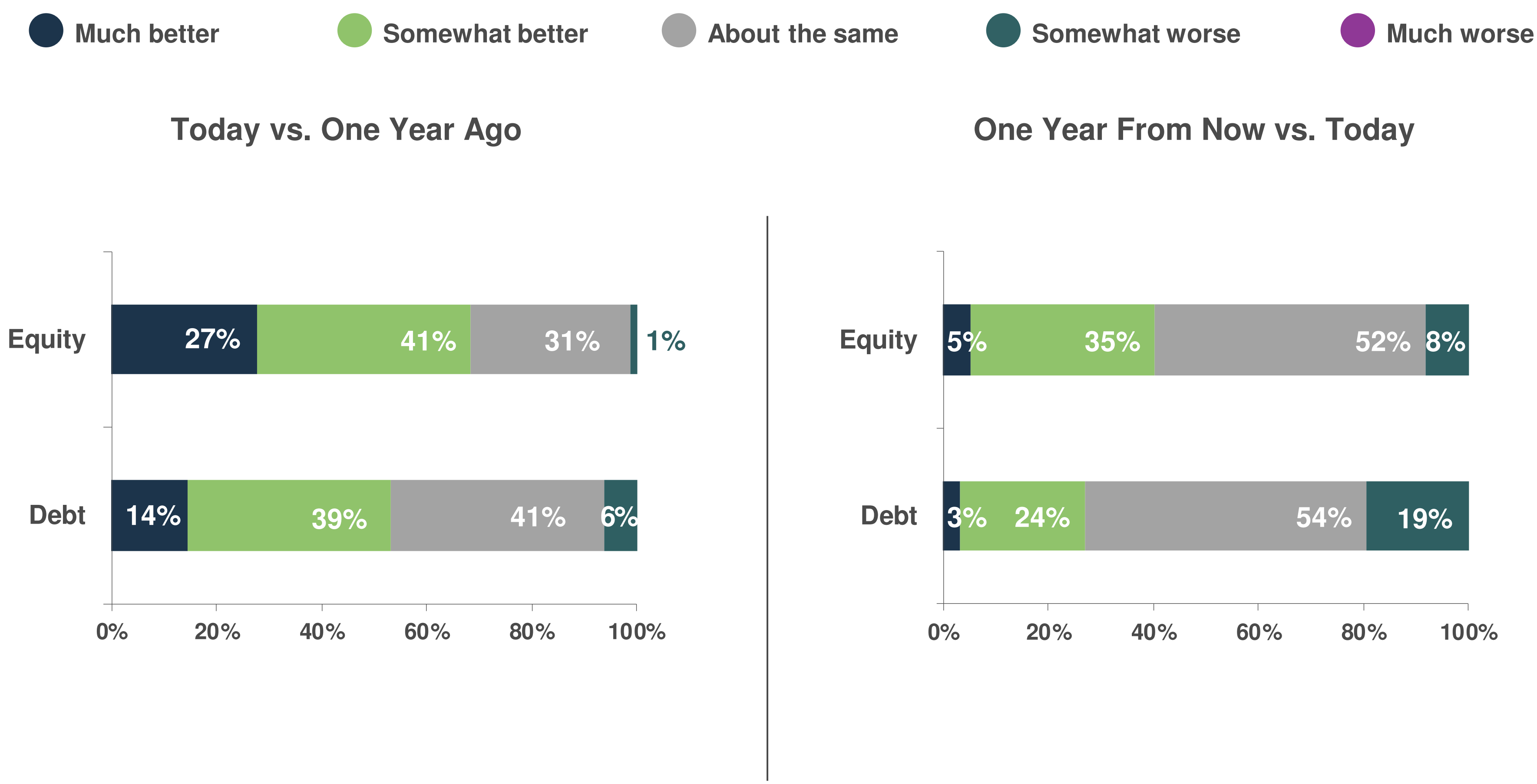
“There is near unlimited capital available across the board. Capital availability should be the last of anybody's worries.”

“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



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