Second 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 Q2 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 Q2 2023 Real Estate Roundtable Sentiment Index registered an overall score of 41, a decrease of three points from the previous quarter. The Current Index registered 27, a four-point decrease from Q1 2023, and the Future Index posted a score of 55 points, a decrease of three points from the previous quarter.

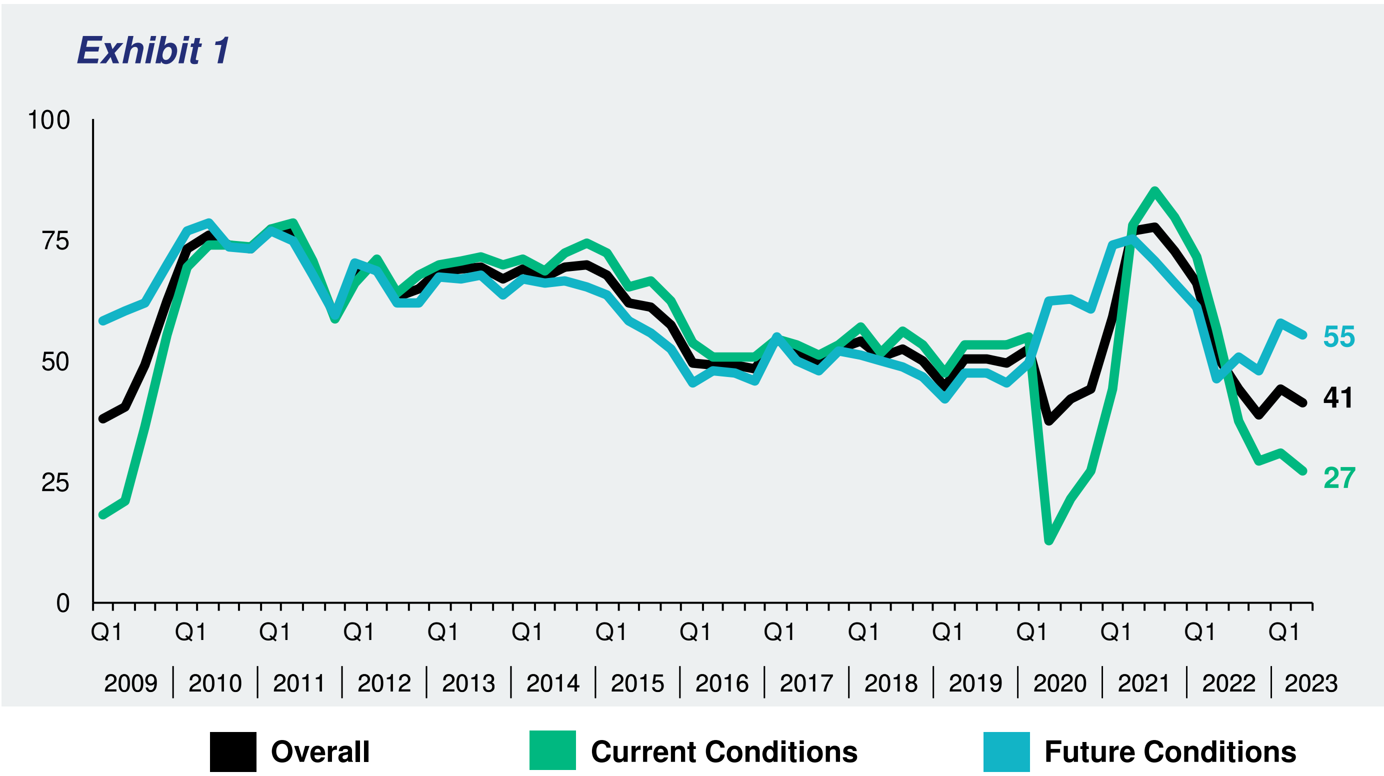
- Participants noted the continued disparity between asset classes as well as within them. On one hand, rental demand continues to hold up in the multifamily and industrial sectors. Hotel and retail markets are also largely performing well and niche asset classes continue to generate interest and attract capital. On the other hand, while Class A offices remain desirable, the rest of the office industry is struggling to reposition itself.

- Similar to last quarter, 93% of survey participants believe that asset values have repriced to the downside vs. last year. However, limited trades in 2023 are making it difficult to fully gauge the market. Survey respondents continue to observe wide disparities in bid-ask spreads.

- The availability of capital, both debt and equity, continues to be a pressing topic. Regarding the availability of debt and equity, 93% and 75% of survey participants, respectively, believe that today's conditions are more difficult than a year ago. While the cost of capital has universally increased, platform scale and relationships largely determine access and ability to secure debt financing.

[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



- In the Q2 RER Sentiment Survey, participants rated the overall market conditions with a score of 41, current conditions as 27, and future conditions as 55
- Compared to one year ago, perceptions of current conditions are down by 30 points, overall conditions are down by 10 points, and perceptions on future conditions are up by 9 points
- In comparison to last quarter, sentiments on current conditions are down by 4 points, overall conditions are down by 3 points, and perceptions on future conditions are down by 3 points

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General Conditions

The Q2 2023 Real Estate Roundtable Sentiment Index registered an overall score of 41, a decrease of three points from the previous quarter. The Current Index registered 27, a four-point decrease from Q1 2023, and the Future Index posted a score of 55 points, a decrease of three points from the previous quarter.

“ It’s important to remember that commercial real estate is not a monolith despite what headlines will have you believe. Industrial and multifamily have tremendous secular demand. Retail has been quite the turnaround story. There are areas of both strength and challenge within our industry– there is nuance.”

“ On the development front, supply chain issues are still a factor; it feels like we are having to plan years ahead and pre-buy and warehouse certain essentials.”

“ Interest rates have had a huge impact on the debt strategy. If a firm has a balloon mortgage and needs to refinance, the current price of debt is a shock to the system.”

“ The commercial real estate market is coming to terms with the current state of affairs. The Fed’s actions have created tremendous tension and the markets are frozen because no one wants to bet wrong.”

“ The macro noise is all very negative. However, from an underlying fundamentals perspective, our industry is still positioned well as supply remains below historical averages and demand is strong.”

“ Access to construction capital will be key in order to keep things in the pipeline moving forward.”

“ At the asset level, there is less distress because rents and occupancy rates are still relatively high. However, there is structural distress with the capital markets as loans come due.”

General Conditions (continued)

Participants noted the continued disparity between asset classes as well as within them. On one hand, rental demand continues to hold up in the multifamily and industrial sectors, and hotel and retail markets are also largely performing well. Niche asset classes continue to generate interest and attract capital. On the other hand, while Class A offices remain desirable, the rest of the office industry is struggling to reposition itself.

“Residential housing continues to perform well given the lack of supply across the US. Across single family rentals, multifamily, senior, and student living, there is solid rent growth, making it a strong segment overall.”

“We believe onshoring will continue to bolster the demand for logistics and industrial. Those sectors remain a darling asset classes. We are still quite bullish on self-storage as well. Never doubt the American consumer.”

“Office performance is totally bifurcated. Class A office buildings in major cities are doing OK, but class B and below are in real trouble. We don’t believe it’s just a cyclical shift either – the five-day office work week is dead. It will take some strong policy to revitalize these urban cores.”

“Demand for industrial, multifamily, and strip center retail is going very strong. However, all prospective tenants seem to be taking longer to make decisions, especially when considering large footprints.”

“The hotel industry is performing well as we see continued interest in leisure travel while business travel is slowly picking up. Manhattan and DC are starting to come back, and beach locations continue to thrive.”

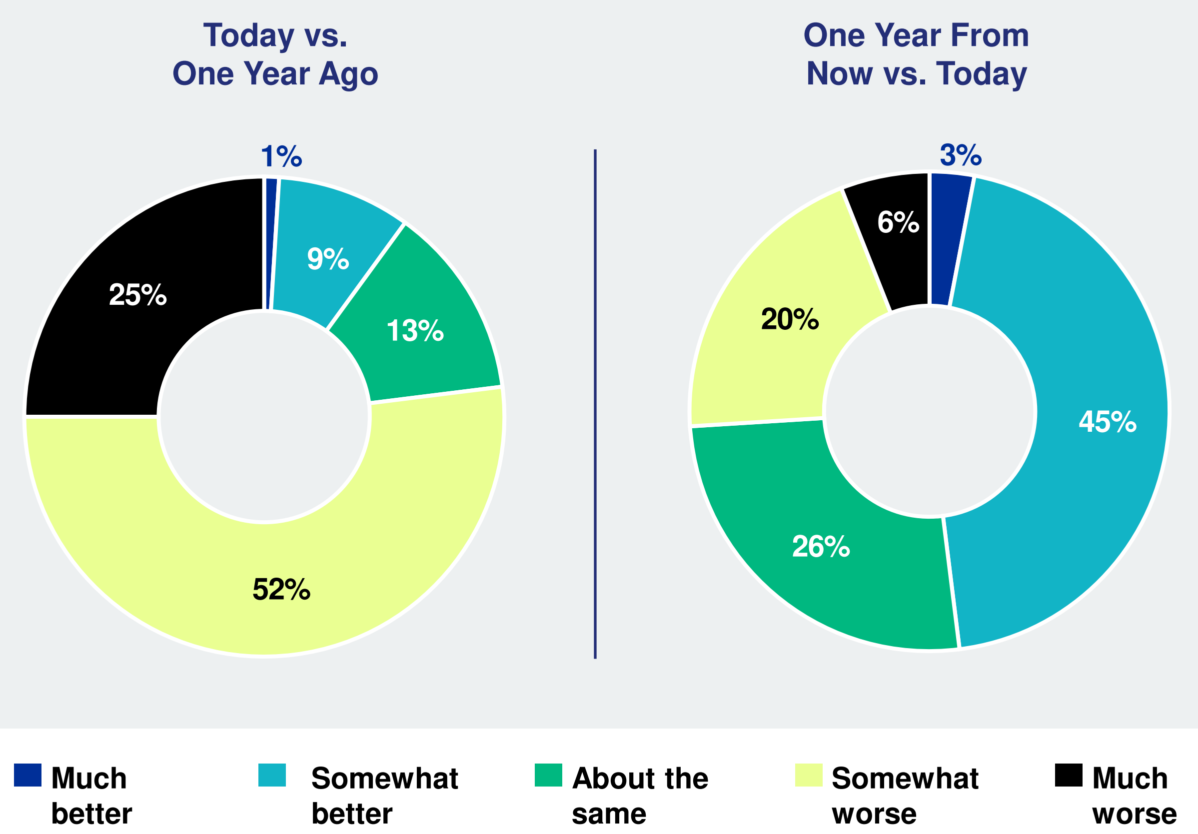
“Retail has done better of late, leading investors to reset expectations. Ten years ago, there was an over supply but the stores that have survived have reconfigured to adapt to foot traffic and the online market.”

“What are we going to do with the office assets that no one wants? Finding new tenants is expensive and the cheapest and most effective way forward for distressed office assets may be demolition, not conversion.”

General Market Conditions

% of respondents

Exhibit 2



- Regarding sentiment on current market conditions, 77% believe it is a less favorable environment compared to one year ago, 10% feel it has improved, and 13% believe conditions remain the same
- Looking towards the future, 48% of participants believe that a year from now will present more favorable market conditions
- Last year, only 40% of participants in the Q2 2022 RER Sentiment Survey believed that general market conditions would be worse in Q2 2023

Asset Values

Similar to last quarter, 93% of survey participants believe that asset values have repriced to the downside vs. last year. However, limited trades in 2023 are making it difficult to fully gauge the market. Survey respondents continue to observe wide disparities in bid-ask spreads.

> There's little consistency in multifamily pricing, but if you look hard enough you can discover some inefficiencies in certain markets that are producing favorable pricing in multifamily deals."

> Pricing on assets or portfolios with significant rent growth are doing well, but a portfolio of assets with rent 30-40% below market might trade at a 4.5% cap rate and even move to a 5.5% cap rate down the road."

> A year from now, we expect that pricing will likely be down from where it is today, largely because there are too few trades right now to adequately understanding pricing trends."

> There is a pretty serious gap in valuations between people who want to sell and the prospective buyers and lenders."

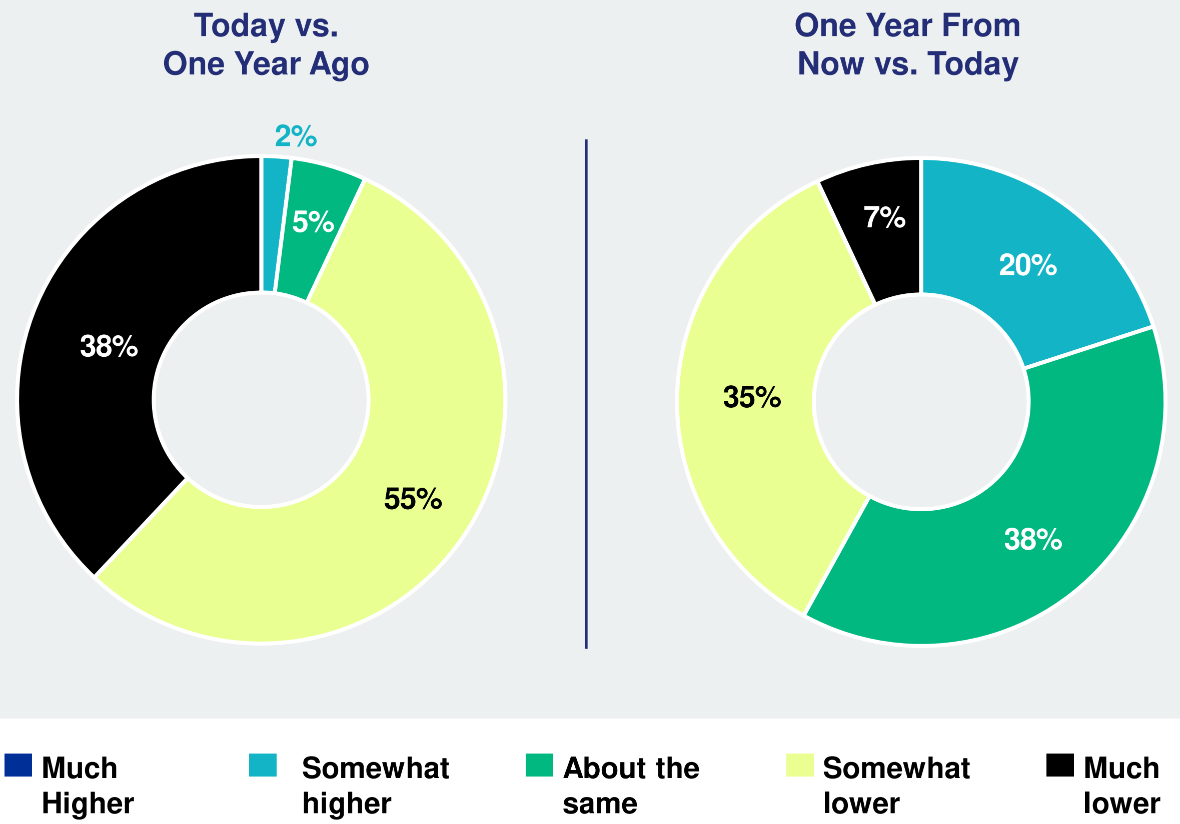
> Today, the majority of private market real estate has not been appropriately priced as interest rates move and as such, we've seen valuations decline."

> We predict the next shoe will drop in the summer when the appraisals come in. Appraisers are likely going to have to be very qualified in their high/lows and my guess is that they go conservative. This will have knock-on effect on the banks."

Real Estate Asset Values

% of respondents

Exhibit 3



- Regarding sentiment on current asset values, 93% believe it is less favorable than one year ago, 2% feel it has improved, and 5% believe asset values have remained the same compared to a year ago
- Looking towards the future, only 20% of participants believe that a year from now will present more favorable asset values
- Last year, 48% of participants in the Q2 2022 RER Sentiment Survey believed that asset values would be less favorable in Q2 2023

Capital Markets

The availability of capital, both debt and equity, continues to be a pressing topic. Regarding the availability of debt and equity, 93% and 75% of survey participants, respectively, believe that today's conditions are more difficult than a year ago. While the cost of capital has universally increased, platform scale and relationships largely determine access and ability to secure debt financing.

> There's still plenty of capital to invest, but everyone wants to maximize their return and as such, are looking at investments more stringently than before. With the cost of debt so high, it takes higher returns to make the investment look profitable."

> For multifamily investments, the banks and insurance companies are still lending money, but for office, there is hardly any financing."

> Funds that are traditionally $1B and less are struggling to raise capital. Equity is highly disciplined, with investors sitting on the sidelines."

> With the bank failures in Q1, all the banks are discouraged from taking more commercial real estate risks and can only afford to support smaller loans. In the meantime, non-banks are not nearly large enough in aggregate to fill that gap."

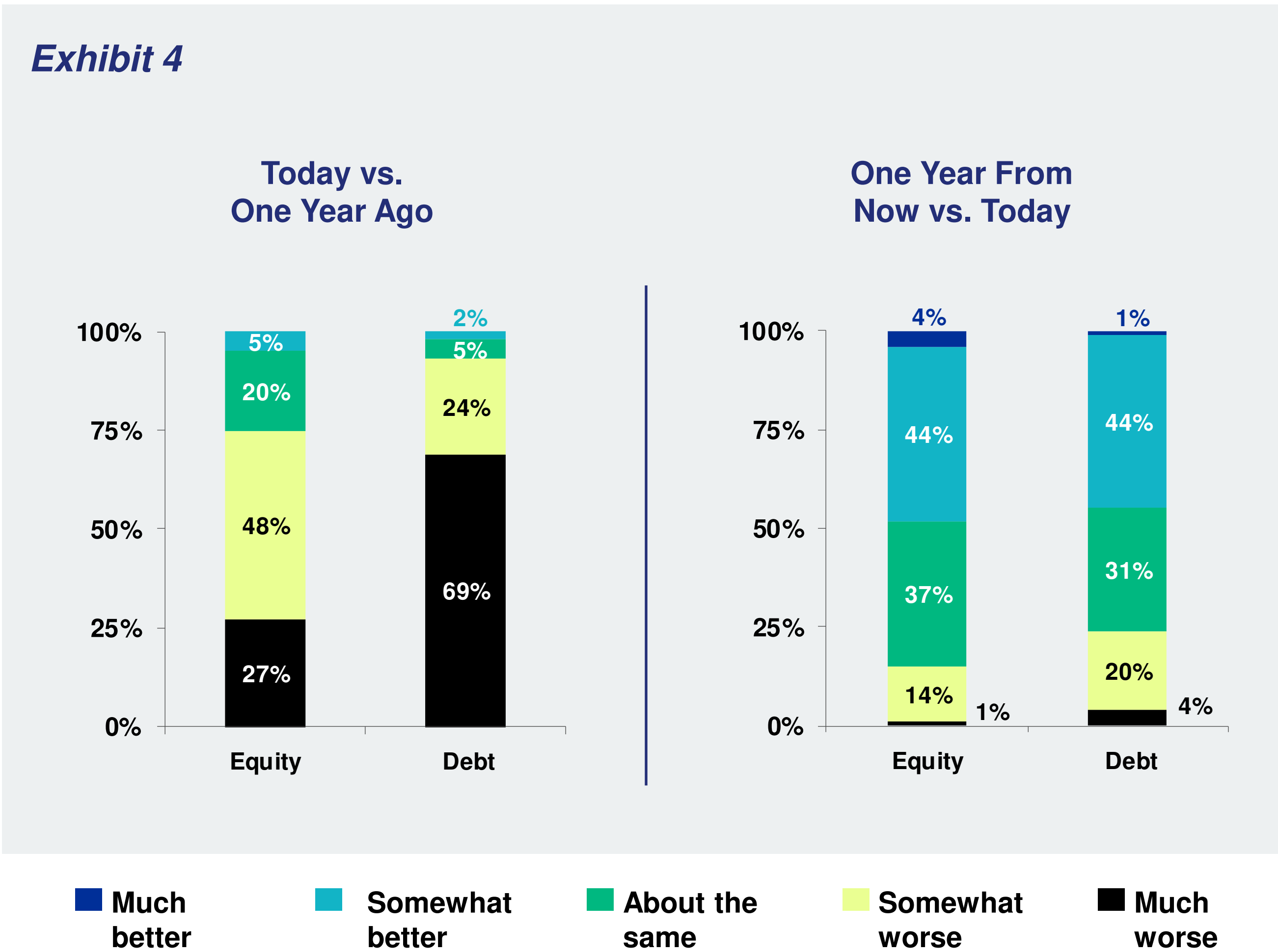
> A lot of alternative financing is trying to take the place of banks. The largest investment managers are looking to fill the lending gap as a way to make profits without taking the direct real estate risk."

> If managers can't agree on a price and also have trouble securing finance, how do you expect equity investors to commit more dollars?"

> The larger market cap equity REITs have been able to access the unsecured bond markets at reasonable spreads."

Availability of Capital

% of respondents



- Regarding sentiment on the availability of equity capital, 75% believe it is less favorable compared to one year ago, 5% feel it has improved, and 20% believe the availability of equity remains the same
- In terms of the availability of debt capital, 93% of participants believe it is less favorable compared to one year ago, 2% feel it has improved, and 5% believe the availability of debt remains the same
- Last year, only 30% of participants in the Q2 2022 RER Sentiment Survey believed that equity capital availability would be worse in Q2 2023, while 45% predicted debt capital availability would be worse in Q2 2023

Participants

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

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Ferguson Partners

Ferguson Partners Consulting – Who we are

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

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