The Real Estate Roundtable Sentiment Index

First Quarter 2018

The Real Estate Roundtable

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The Real Estate Roundtable is pleased to announce the results from the Q1-2018 Real Estate Roundtable Sentiment Survey. The quarterly survey is the commercial real estate industry's most comprehensive measure of senior executives' confidence in the real estate environment. Conducted by FPL Advisory Group 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, and (3) real estate asset pricing.

Topline Findings

- While the Q1 index came in at 54, there is a noticeable gap between the scores for current conditions (57) and future conditions (51). Responders are feeling comfortable about the stability of the real estate market in 2018, but many expressed concerns about what the market may look like in 2019.
- With asset values nearing perceived peaks in gateway cities, the real estate community has demonstrated discipline many feel was absent in the previous cycle. Debt and equity sources of capital are making thoughtful, risk-weighted decisions.
- Asset values continue to increase in secondary and tertiary markets as investors chase yield. In gateway and coastal cities, many responders feel that markets are nearing peak values.
- For high quality investments in primary markets, responders feel there are many sources of debt and equity capital. Many responders suggested alternative lending platforms are providing increased competition.

[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

While the Q1 index came in at 54, there is a noticeable gap between the scores for current conditions (57) and future conditions (51). Responders are feeling comfortable about the stability of the real estate market in 2018, but many expressed concerns about what the market may look like in 2019.

“Things are humming along nicely now, but heading into 2019, it gets foggier.”

“People are cautiously optimistic but reserved. How long can the cycle run? We think the window of visibility is a lot shorter than it was. People seem to feel good about this year, but beyond that, I can't say they know how to feel.”

“Things are changing, but we won't know the impact for some time.”

“There is absolutely no shortage of capital out there. It's a borrowers’ market and that's when stupid things happen.”

“Interest rates should rise, but we wouldn't have the recovery we have today without the quantitative easing or interest rate actions taken.”

“For the last three years we've been waiting for the end of the cycle. We’re still waiting..”

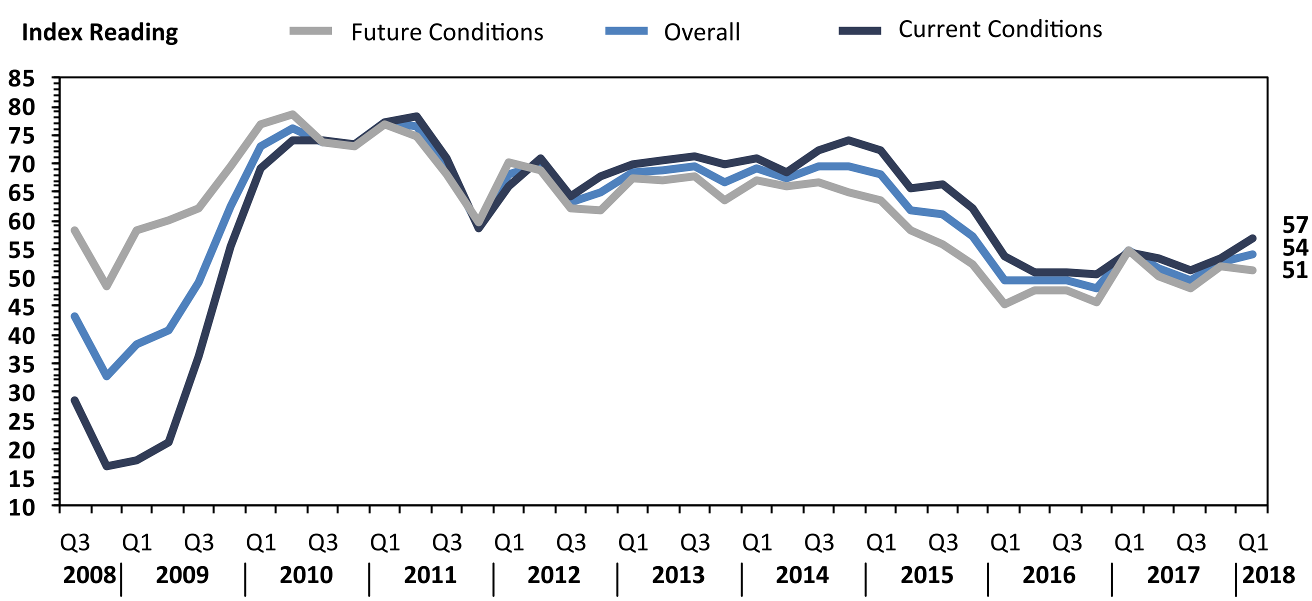
“From what we can tell, the market and the economy look pretty good, from a US domestic perspective, anyway.”

“Tax reform may have a short-term positive effect for the real estate market, but perhaps it introduces a few long-term issues too.”

“Unlike the last five years, when rent growth was very strong in most places, we are only predicting modest rent growth for major markets.”

Exhibit 1

The Real Estate Roundtable Sentiment Index



General Conditions
(continued)

With asset values nearing perceived peaks in gateway cities, the real estate community has demonstrated discipline many feel was absent in the previous cycle. Debt and equity sources of capital are making thoughtful, risk-weighted decisions.

“Markets have been surprisingly stable and also surprisingly disciplined… To this point.”

“Investors today are children of the great recession. Investors are hesitant to deploy capital into the secondary and tertiary markets.”

“Second tier cities still feel like early stage recovery, while gateway cities feel like they are late stage recovery, but the gateway cities are attracting the major capital commitments.”

“This market has removed many of the speculative real estate investors. You have to know what you are doing to invest in this environment.”

“It's stable, but you can see signs of slowing. Transaction volume is down, groups are being careful.”

“I worry about seeing the end of this movie all over again.”

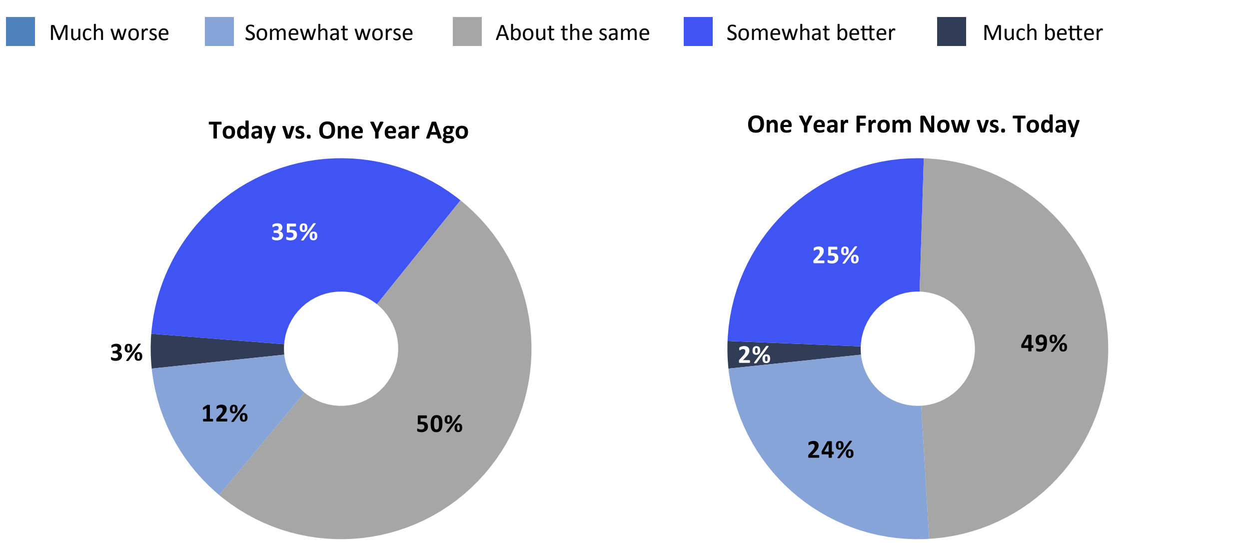
“Things are overall very good. Fundamentals are in balance, we aren't too overbuilt in any food group except maybe multifamily.”

“We worry about what happens with Fannie and Freddie. GSE reform will happen and it'll be better for the government than the real estate market.”

Exhibit 2

Perspectives on Real Estate Market Conditions

% of respondents



Asset Values

Asset values continue to increase in secondary and tertiary markets as investors chase yield. In gateway and coastal cities, many responders feel that markets are nearing peak values.

“We think values are flat, and maybe trending down this year. You always see the best buildings trade at the top of the market as they only trade at a premium price. We are seeing them trade.”

“We've hit a plateau with pricing. It's healthy that values aren't rising like they were. We are in the Sweet spot today, but how long can that last?”

“This time through, we still haven't seen the knucklehead coming along and paying outrageously for assets. When we see him, we'll know the market is heading off a cliff.”

“It's at peak, but different buyers are still buying for different reasons, international capital seeking stability, for example.”

“Many of the markets are moving toward softening.”

“We see high values and more downside potential than upside. Most retail falls into this category for us.”

“Values are high, but we are wondering, does the length of this cycle mean values are additionally susceptible to interest rate changes?”

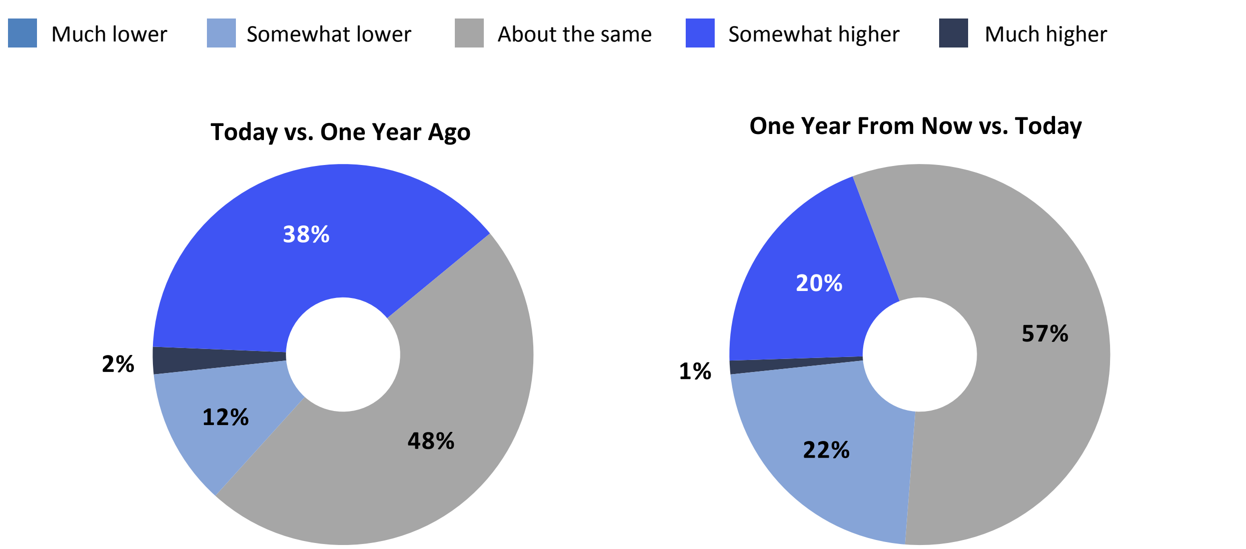
“We think prices are stable year-over-year. There's an adjustment in the market coming, but we don't see it coming this year.”

“We've hit peak on cap rates. I don't think we will see much more compression.”

Exhibit 3

Real Estate Asset Values

% of respondents



Capital Markets

For high quality investments in primary markets, responders feel there are many sources of debt and equity capital. Many responders suggested alternative lending platforms are providing increased competition.

"The debt markets are very efficient and extremely competitive; it's the best time to borrow now from a non-bank in my lifetime."

"For quality borrowers looking at quality investments, the money is there."

"In the entire capital stack, there's plenty of capital."

"There's a ton of capital available."

"Too much equity is propping up valuations. There are a lot more non-bank lenders that are going to put capital to work."

"While banks have been more careful about wading in, there's still a lot of capital accessible out there. That said, in sub-markets and with sub-assets, we are seeing disciplined lending practices from everyone."

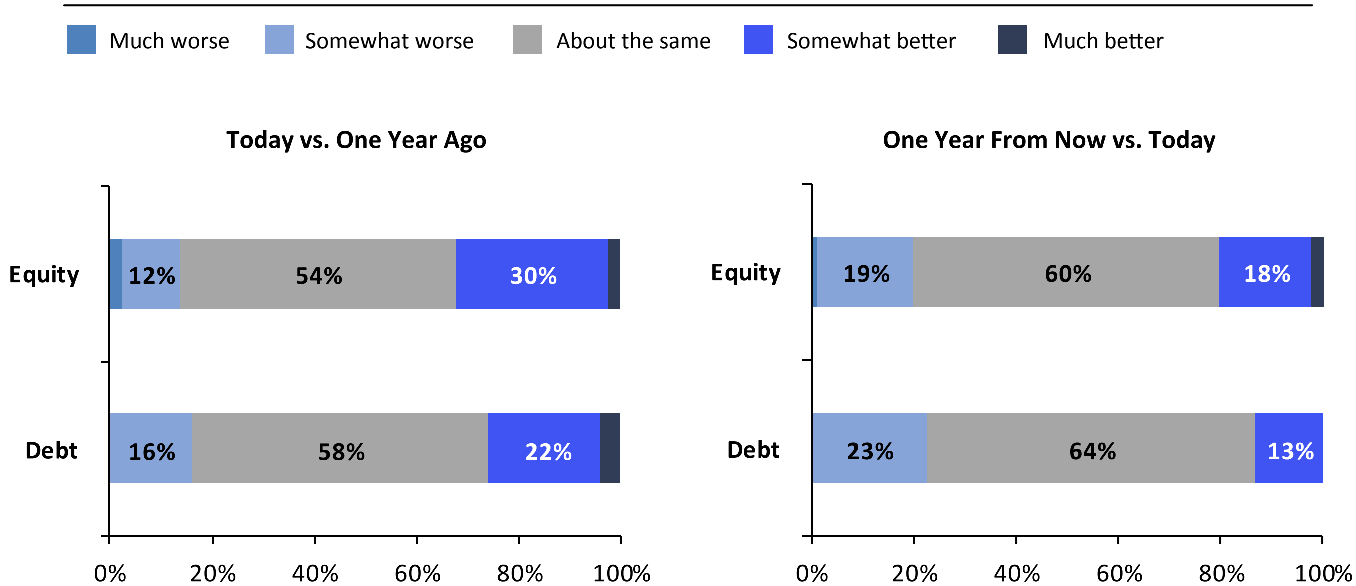
"You can find the deals and lenders are being disciplined."

"With all the capital availability, the challenge is figuring out how to intelligently deploy it."

Exhibit 4

Availability of Capital

% of respondents



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