The Real Estate Roundtable Sentiment Index

Second Quarter 2018

The Real Estate Roundtable

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The Real Estate Roundtable is pleased to announce the results from the Q2-2018 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

- The Q2 index came in at 51, a 3 point drop from Q1. Awareness of the length of the current cycle and trepidation about economic conditions in 2019 has led to a general feeling of cautiousness. That said, availability of affordable financing and plentiful equity for the best quality investments are driving continued investment activity.
- Despite rising costs of construction, development continues somewhat unabated. Some responders pointed to the expectations of the millennial generation as the driver for reimagined building uses and new developments.
- Asset values are perceived as peaking for most property types and markets. Industrial and multifamily assets are viewed as classes with room to continue pricing growth, whereas many felt retail assets are overpriced and possibly overbought.
- Responders noted the absence of previously ubiquitous Asian capital this quarter. Despite this absence, all responders felt debt and equity was readily available for quality investments.

[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 Q2 index came in at 51, a 3 point drop from Q1. Awareness of the length of the current cycle and trepidation about economic conditions in 2019 has led to a general feeling of cautiousness. That said, availability of affordable financing and plentiful equity for the best quality investments are driving continued investment activity.

"This year has so far seen a continuation of last year's trends. The most notable trend has been the great proliferation of credit. There are incredible levels of debt available to sponsors, both weak and strong."

"Earnings expectations are good, but you feel nervous; we are defying gravity with this cycle."

"The fundamentals of real estate remain strong. The balance between supply and demand in almost every sector is healthy. Debt and equity for real estate as an asset class remains abundant. Fears about political uncertainty, trade wars, and interest rate increases are having some impact and creating a manageable amount of uncertainty."

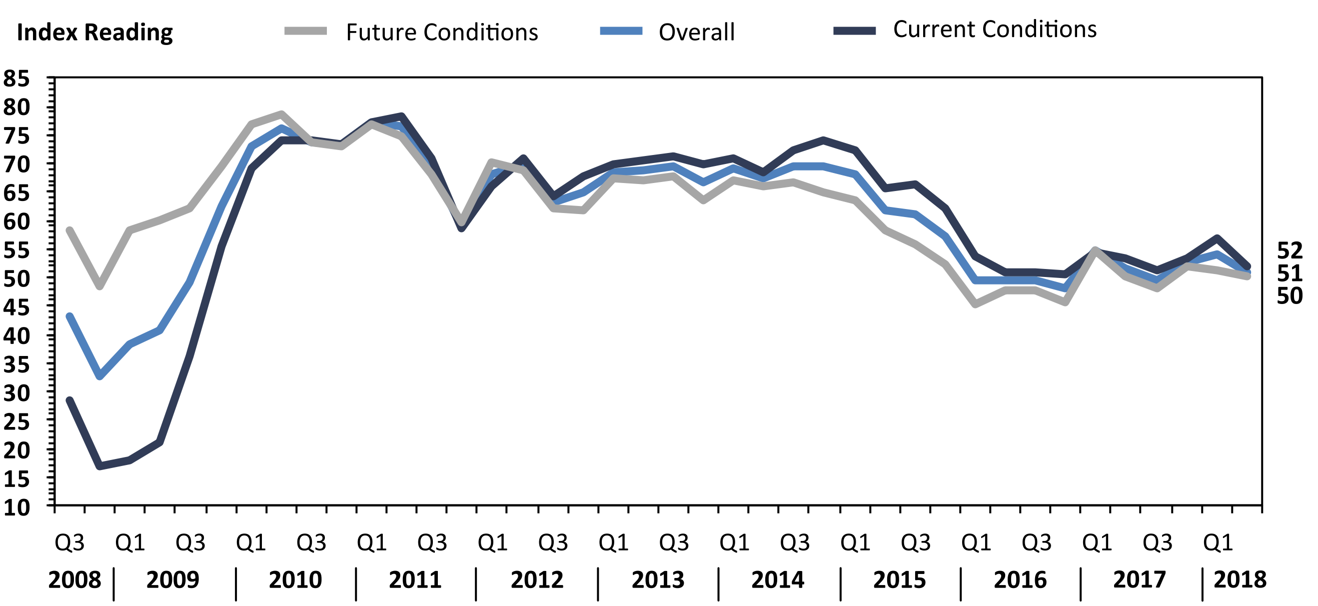
"We see lots of liquidity chasing fewer deals in the market today."

"Now is the time to buy the highest quality asset you can find. The price delta between high quality investments and the moderate to low quality investments is very small in the best markets. We see unattractive investments trading within 10% of the price of quality assets."

"The market has been strong for many years, but we feel its showing all the signs of taking a breather. There is a sense of caution; companies are doing things because they have to."

Exhibit 1

The Real Estate Roundtable Sentiment Index



General Conditions
(continued)

Despite rising costs of construction, development continues somewhat unabated. Some responders pointed to the expectations of the millennial generation as the driver for reimagined building uses and new developments.

“There are multiple factors which should be depressing development, such as rising construction costs and aggressive rent growth assumptions, but development activity continues to be strong.”

“The new generation of office employees are demanding a different experience than office workers of old. What would have been a Class A building in a Class A location is now in an undesirable area and downgraded for a lack of amenities. The upside - demand for new space is good for the industry.”

“The younger generation of professionals wants different things from their workplace. It’s really forced the industry to reimagine office buildings and driven a lot of the demand for new developments.”

“Rising construction costs are a concern. This is playing out in a number of places - making it harder to pencil new development, increasing the costs of tenant improvements, and increasing the cost of upgrading older buildings.”

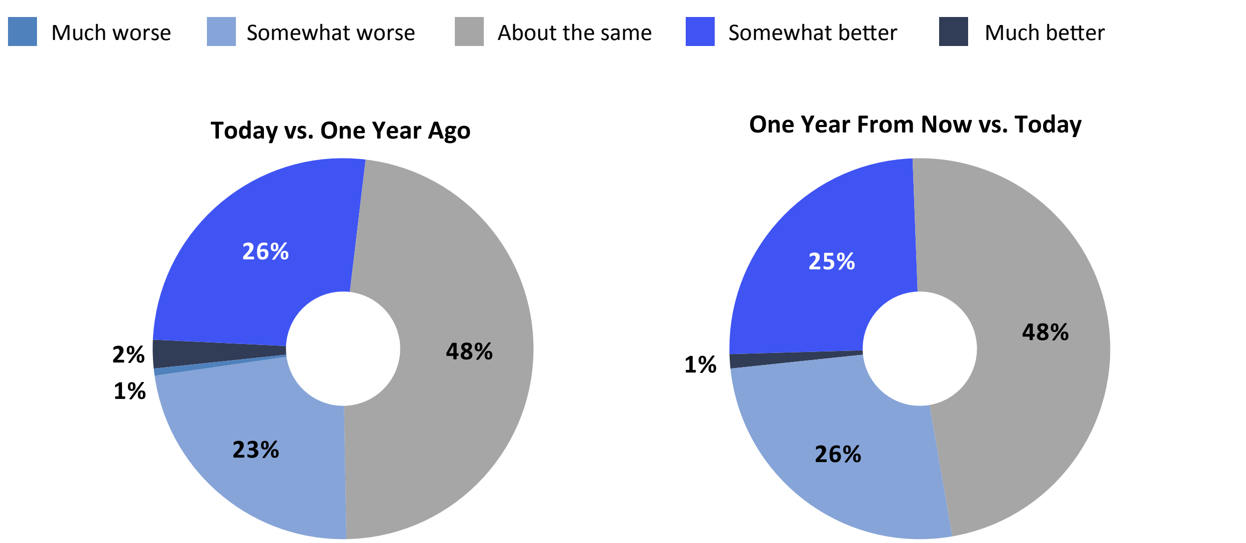
“We feel equity groups are sitting on a large quantities of dry powder. The bid ask between buyer and seller is large.”

“The market continues to benefit from the benign combination of supply constraint relative to employment growth and household formation.”

Exhibit 2

Perspectives on Real Estate Market Conditions

% of respondents



Asset Values

Asset values are perceived as peaking for most property types and markets. Industrial and multifamily assets are viewed as classes with room to continue pricing growth, whereas many felt retail assets are overpriced and possibly overbought.

"We think real estate is fully valued, if not frothy. We are seeing historic numbers which have been driven by low to no interest rate and sovereign capital."

"The public commercial real estate values are typically good leading indicators to private values. I expect prices to soften."

"In the major markets, you have every reason to sell as prices are high. In sub-markets, you need to have great conviction in order to invest."

"Rents won't climb as quickly as interest rates so values will likely come down from a buyer's perspective."

"The market is less frothy, but buyer pools are thinner."

"Retail has all been painted with the same brush, which is negatively affecting pricing."

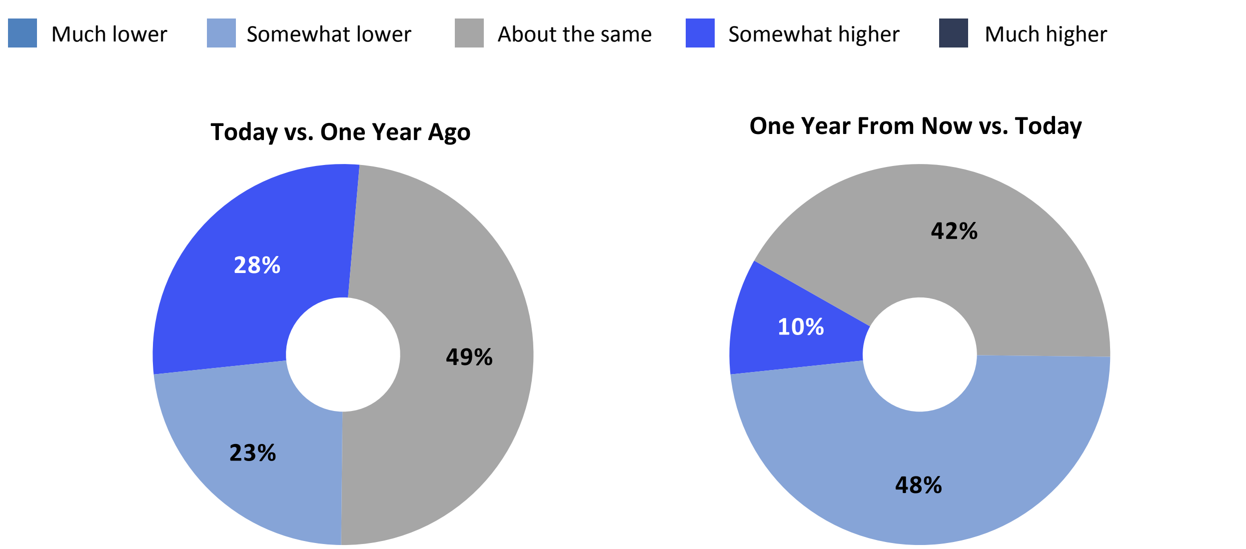
"Pricing varies depending on property type and market. Industrial is hot, but how do you factor in the future impact of autonomous vehicles? If you are investing in a ten year fund, you need to underwrite innovation. How do you do that?"

"Industrial is being repriced as more investors consider it next generation retail. With that said, big box retail isn't pulling back, it's just changing the way it operates."

Exhibit 3

Real Estate Asset Values

% of respondents



Capital Markets

Responders noted the absence of previously ubiquitous Asian capital this quarter. Despite this absence, all responders felt debt and equity was readily available for quality investments.

"In core markets, transaction volume has fallen off as Chinese and Middle Eastern investors have stepped back."

"With the disappearance of foreign (Asian) capital and rising interest rates, I expect cap rates to decline."

"Equity is still readily available, as it has been for the last few years."

"Allocations to the real estate asset class have increased. Investors still have equity to put to work, but are nervous about where we are in the cycle. This has led to competing pressures."

"Overall, the levels of available capital and aggressive debt providers will continue to support meaningful activity in the real estate industry."

"There's almost unlimited credit for alpha investments."

"Debt can be found from many sources; CMBS, life insurance companies, funds. If you can find the asset, financing it is not going to be your problem."

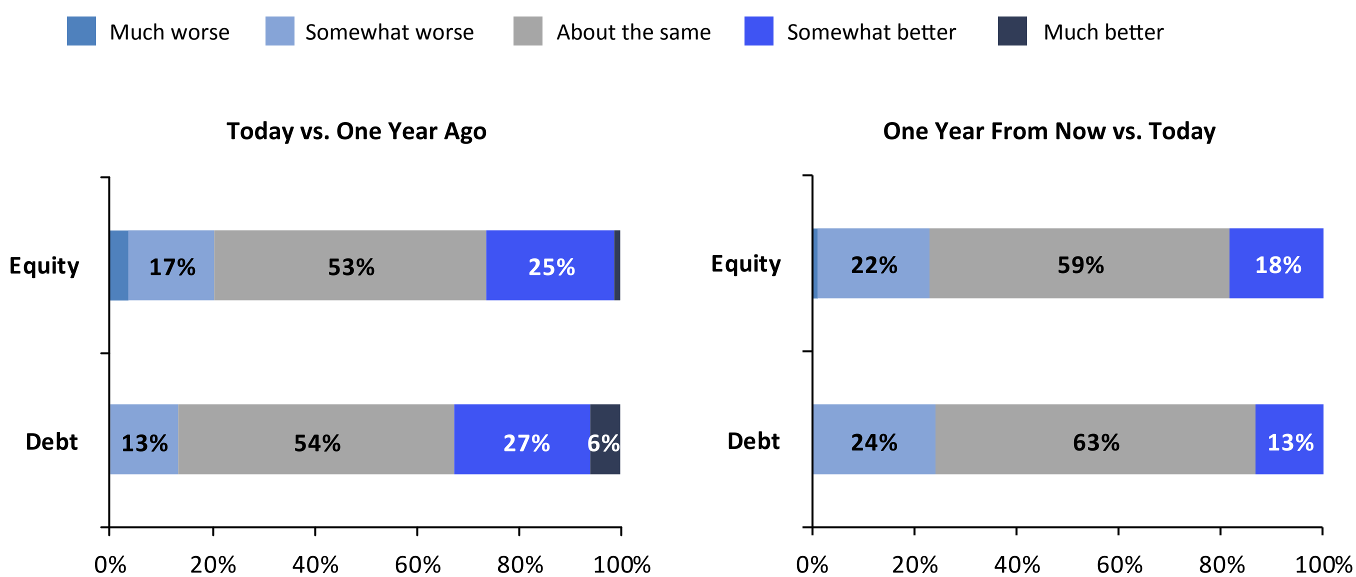
"Groups with equity are voraciously trying to find deals to capitalize."

"The quantity of life insurance lending has led to smaller spreads."

Exhibit 4

Availability of Capital

% of respondents



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