The Real Estate Roundtable Sentiment Index

Third Quarter 2018

The Real Estate Roundtable

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The Real Estate Roundtable is pleased to announce the results from the Q3-2018 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 Q3 index came in at 52, a one point increase from Q2. Responders view the market as balanced in terms of property supply and demand. Some responders pointed to pockets where the balance is slipping, but felt the general market conditions are positive and will continue to be so, barring an unexpected event.
- Most responders feel market conditions are stable, but there is growing sentiment suggesting the industry is nearing the end of its current cycle. This sentiment is reflected in the seven point spread between current and future real estate conditions shown in Exhibit 1.
- Most responders suggested asset values have reached peak pricing for many property types, and certainly in major gateway cities. Despite potential peak pricing, industrial properties continue to attract a large volume of investors.
- Debt and equity capital sources remain plentiful, but responders expressed concerns about the amount of debt available and the ramifications of the mounting time pressure some lenders have to invest their capital.

[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 Q3 index came in at 52, a one point increase from Q2. Responders view the market as balanced in terms of property supply and demand. Some responders pointed to pockets where the balance is slipping, but felt the general market conditions are positive and will continue to be so, barring an unexpected event.

“Fundamentals across products are in good balance, but we’re seeing more and more pockets where we are concerned about over-supply. We are being cautious about investing further in those markets.”

“If we don’t see an exogenous event, we anticipate the general conditions in the market to stay the same through next year.”

“I don’t think anyone cares so much (about what market conditions may be); there’s so much conventional knowledge about what’s happening out there. People are carrying on anyway.”

“The general feeling: markets are good, but there is some uncertainty about how much longer this will last.”

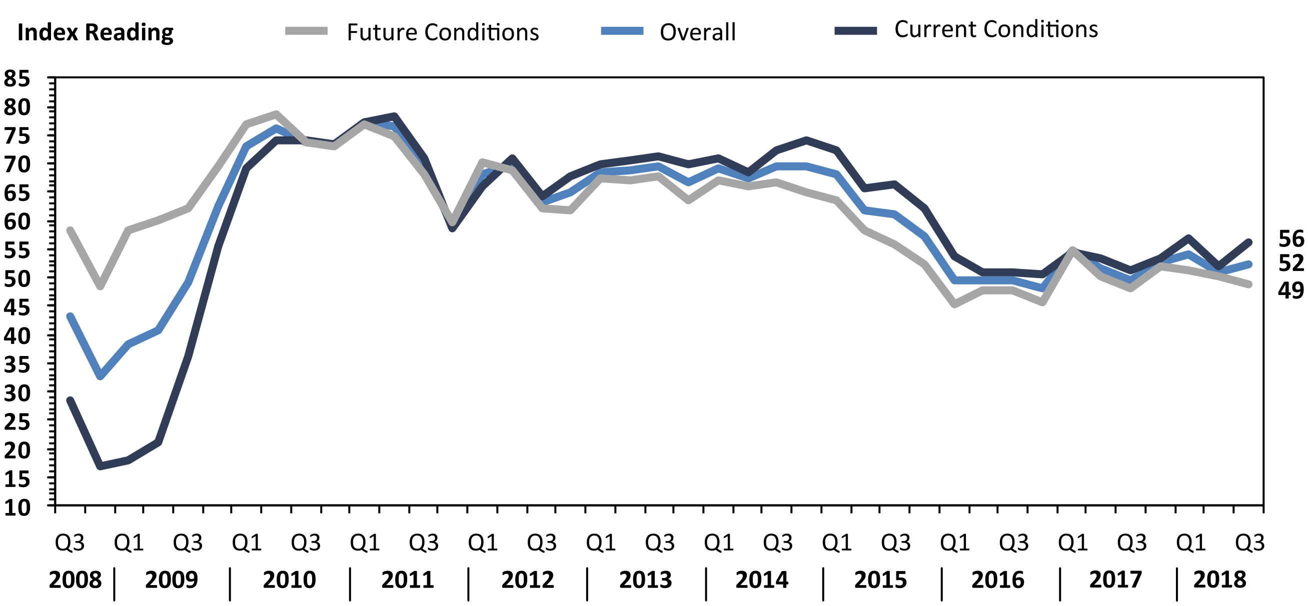
“The market has absorbed the recent interest rate increases. We still see job growth. Combine this with solid fundamentals and low vacancy and you have a very stable market.”

“The market is evolving; the advent of the co-working concept and the new technology platforms are forcing it to change. The good news: these changes aren’t interrupting the flow of business.”

“Maybe for the first time in my career, we are seeing a market where it’s difficult to buy and also to build. There are true barriers to entry in our market, and this factor alone will keep our industry hot for a while.”

Exhibit 1

The Real Estate Roundtable Sentiment Index



General Conditions
(continued)

Most responders feel market conditions are stable, but there is growing sentiment suggesting the industry is nearing the end of its current cycle. This sentiment is reflected in the seven point spread between current and future real estate conditions shown in Exhibit 1.

“I think the market is about as overheated as I’ve ever seen it. It feels a great deal like there could be a bubble forming. I’m surprised the market is lasting this long.”

“There is an immense quantity of private capital chasing real estate these days.”

“We believe the top of the real estate market was a few years ago.”

“When deals are hard to find, we’ve seen sovereigns look to buy companies and own a captive deal flow.”

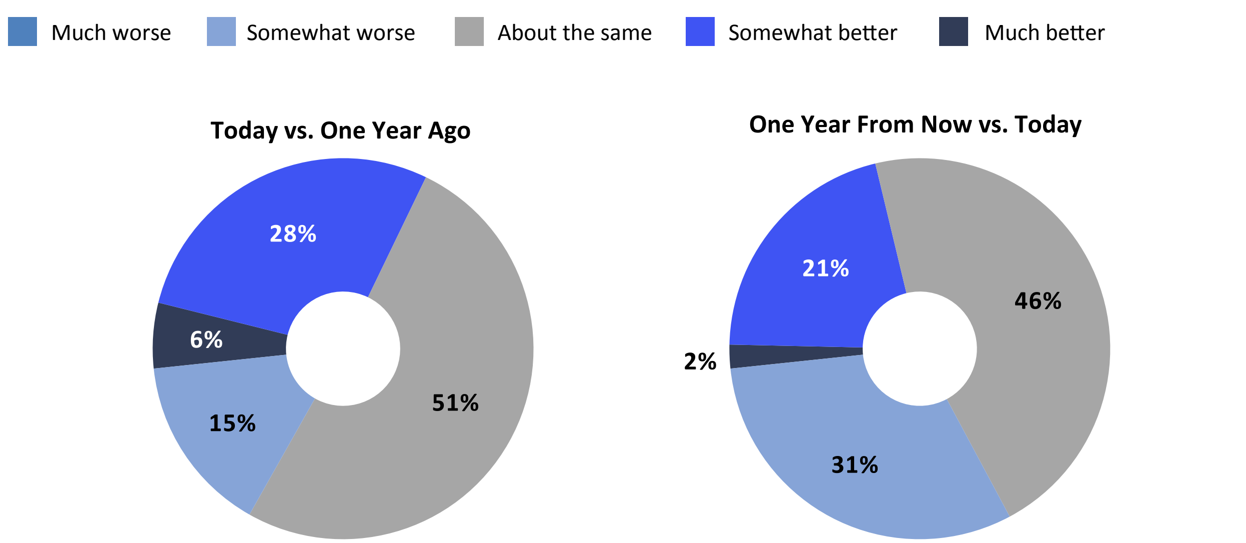
“We think next year (2019) cracks in the market may appear, but the inertia in the market will mean we don’t start to feel the ramifications until the following year.”

“The market keeps marching on and we’ve all enjoyed several years of cap-rate compression, but we’re finally getting close to the end of this cycle.”

Exhibit 2

Perspectives on Real Estate Market Conditions

% of respondents



Asset Values

Most responders suggested asset values have reached peak pricing for many property types, and certainly in major gateway cities. Despite potential peak pricing, industrial properties continue to attract a large volume of investors.

"Asset pricing is solid. There are some areas, like in retail, where we aren't sure which way pricing is going."

"At the moment, debt is attractive, so people are refinancing versus selling if they can't get the price they want for their asset. There's little pressure, so companies can hold their properties.

"It's impossible to buy anything. Bids are getting into cap-rates it's hard to justify. We think the capital markets are propping everything up."

"Retail is certainly less attractive on the surface, but perhaps there's a pricing opportunity there."

"Despite the debt providers getting concerned about where we are in the cycle, the private equity capital in the market continues to seek new deals."

"The global liquidity that was in the system in 2015 has subsided and the number of bids we see today are much fewer than they were."

"Sellers want yesterday's cap-rates, but buyers want tomorrow's."

"We are at a stage in the market with people making new investments are being forced to price to perfection, and although they are being thoughtful, more and more mistakes are starting to be made."

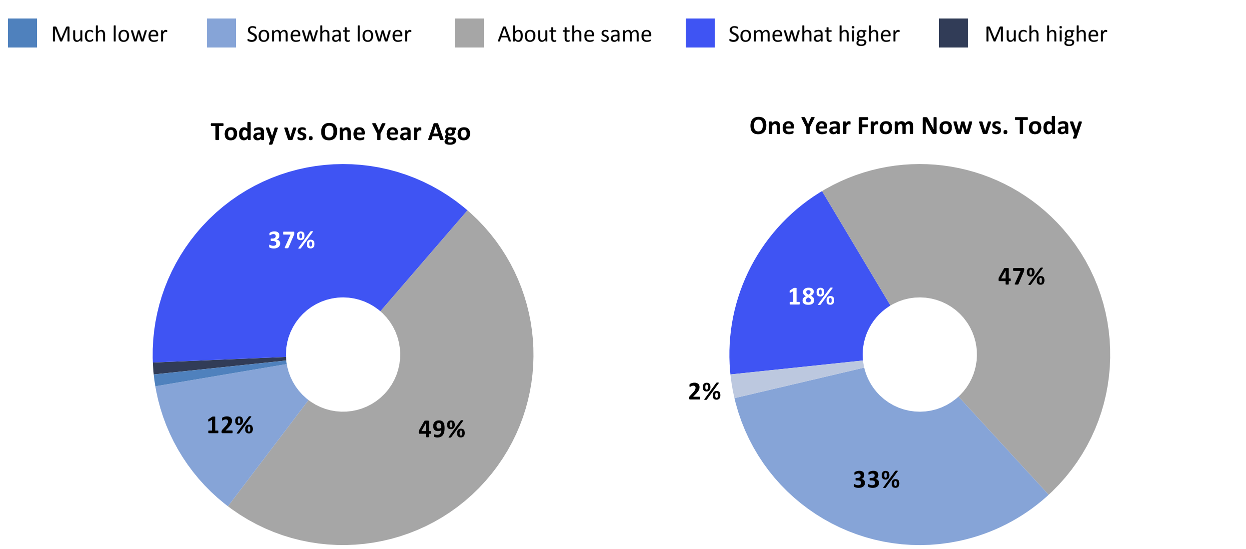
"If you have access to great deals, you have amazing access to capital."

"The ask is so specific out there right now; if it's industrial, it sells."

Exhibit 3

Real Estate Asset Values

% of respondents



Capital Markets

Debt and equity capital sources remain plentiful, but responders expressed concerns about the amount of debt available and the ramifications of the mounting time pressure some lenders have to invest their capital.

"There is lots of debt available and at spreads which we don't feel accurately reflect the risk. The spreads are too thin; it feels a little like 2006. Like the last cycle, the market restrictions have thinned and the banks have re-entered the market, thinking it's safe. This forces the non-bank lenders into riskier deals."

"As a consumer of debt, our debt yields look tremendous."

"Debt funds have raised so much capital, I'm worried about them starting to get too aggressive."

"We've seen less equity availability on a per-deal basis this year. There is still plenty of capital, but we aren't seeing the same levels as we did last year."

"We haven't thought twice about the capital markets for a long time; they're wide open."

"There's a lot of equity looking for assets; there is no liquidity question. It's more that groups are concerned about where we are in the cycle. This makes them more cautious about committing their equity."

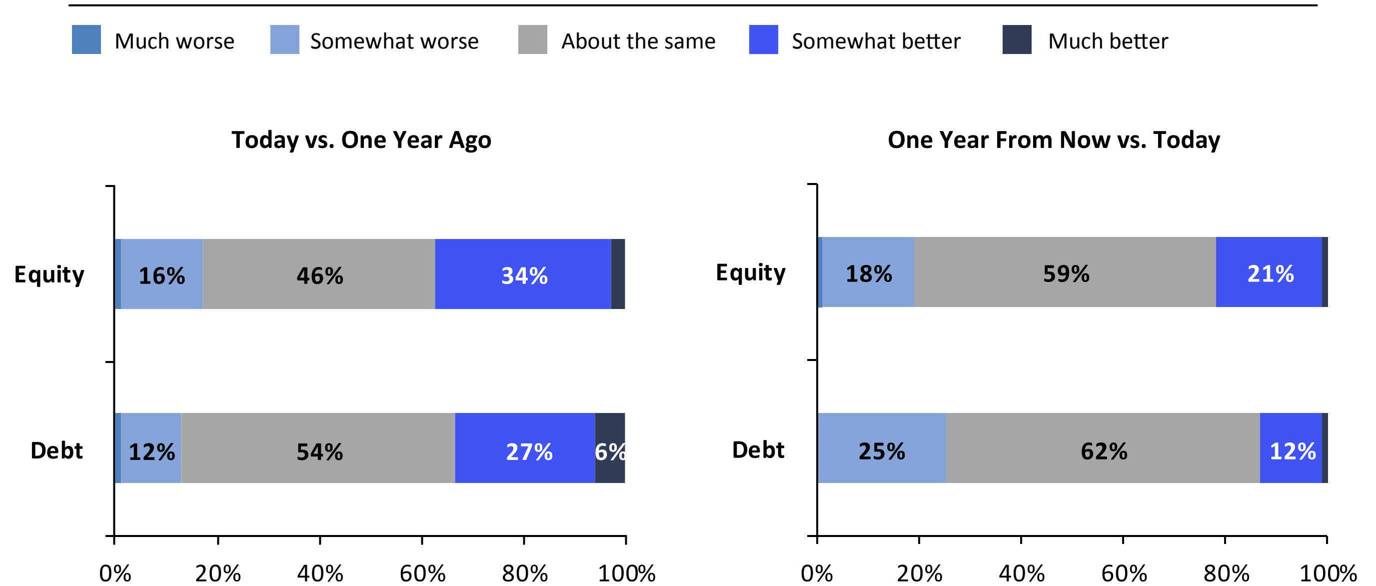
"The banks have been unleashed, so we're actually seeing more debt availability now than we did last year. There's still a lot of debt availability in the new debt funds, and anytime you have that much capital raised in any form, there's the potential for abuses."

"We see amazing competition among the debt providers. Thankfully, we also see a high level of discipline."

Exhibit 4

Availability of Capital

% of respondents



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

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