

The Real Estate Roundtable Sentiment Index

Fourth Quarter 2019



The Real Estate Roundtable



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The Real Estate Roundtable is pleased to announce the results from the Q4-2019 Real Estate Roundtable Sentiment Survey. The quarterly survey is the commercial real estate industry's most comprehensive measure of senior executives' confidence and expectations about the commercial real estate market 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 values.

Topline Findings

- The Real Estate Roundtable Q4 2019 Economic Sentiment Index registered a score of 49 – a one-point decrease from the previous quarter. Survey participants remain confident in stable market fundamentals, but are concerned about recession talk, troubled international markets and politics.
- Sixty-two percent of Q4 survey respondents believe markets conditions will be about the same or better in 2020. Approximately 82% of respondents see today's market as about the same or better compared to the same time last year.
- More than 65% of respondents anticipate asset values to maintain their current level or be somewhat higher going into 2020. Additionally, half also suggested asset values increased over the past year. Respondents consistently suggested the number of buyers for assets was decreasing, a factor which is creating challenging selling and buying circumstances.
- Most respondents feel debt and equity capital are readily available for quality investments. The availability of capital and refinancing opportunities are offsetting a decline in buyers/investors in some markets.

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 Real Estate Roundtable Q4 2019 Economic Sentiment Index registered a score of 49 – a one-point decrease from the previous quarter. Survey participants remain confident in stable market fundamentals, but are concerned about recession talk, troubled international markets and politics.

“If you keep talking about a coming economic downturn, the statement becomes self-fulfilling. There are indications that markets are softening; newly created jobs are not paying as well as they used to and they aren’t the caliber of jobs we need to sustain this market.”

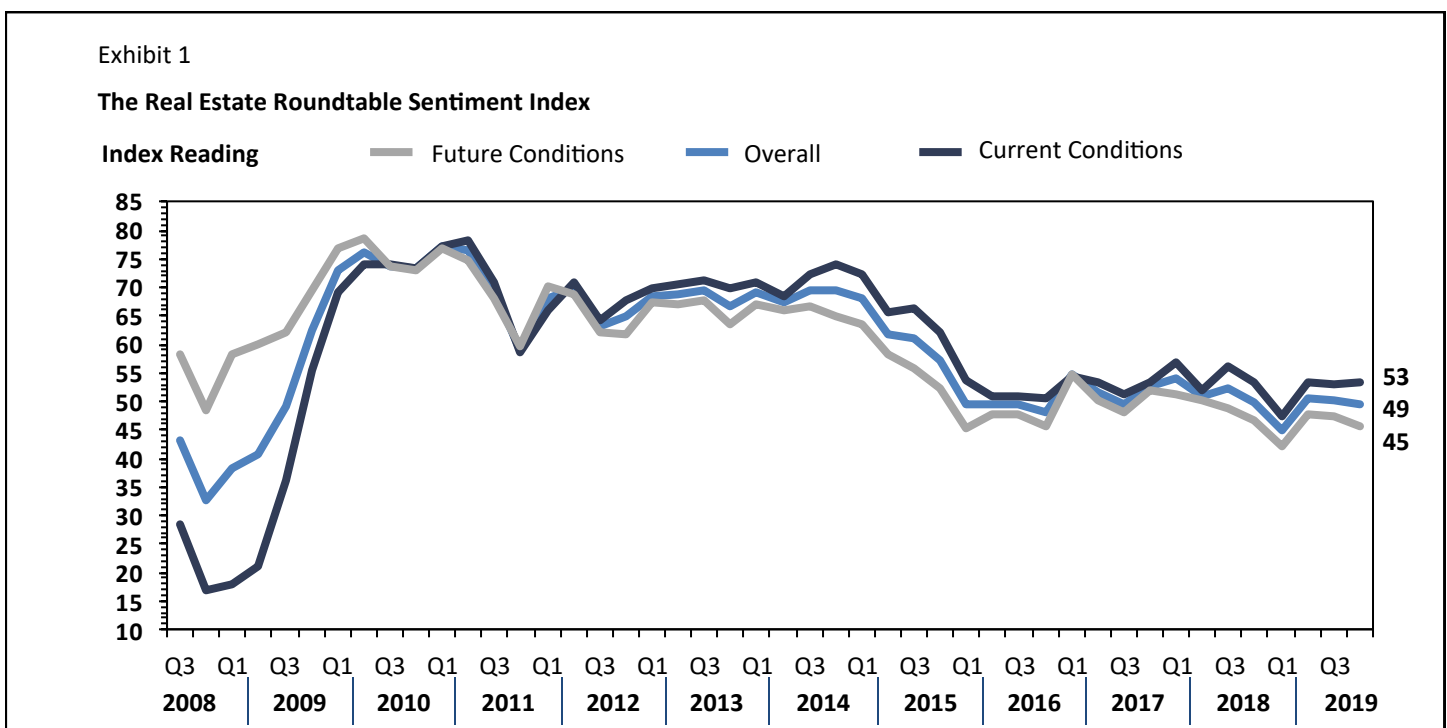
“The world at large is politically unsettled, unpredictable, and to some degree frozen. I say that, then I look at our tenants and they’re highly active, so the macro and the micro are giving conflicting signals.”

“The market feels pretty good to us. I’m blown away by the daily headlines about trade wars and issues; it feels like someone’s always crying wolf when I read the news. My biggest fear is that we’re going to talk ourselves into a recession. I’m worried consumers are going to be talked out of spending as the result of consistently scary headlines. In fact though, the market is doing fine.”

“A market decline next year wouldn’t surprise me, but in terms of pure fundamental strengths, we’re as good as we’ve ever been. We feel pretty good about the future and we’re experiencing strong demand for new space. We haven’t seen much concern about tariffs from our tenants. Consumers are still active, so the real question is, when are people going to stop buying things?”

“We think the markets are likely to get choppy going into the election because they always do. We may see an economic slowdown soon, but it’s not relative to any underlying market fundamentals.”

“Industrial is seeing a little slowing, but nothing meaningful; we haven’t seen delivery outstripping demand.”



General Conditions

(continued)

Sixty-two percent of Q4 survey respondents believe markets conditions will be about the same or better in 2020. Approximately 82% of respondents see today’s market as about the same or better compared to the same time last year.

“Chasing human capital is everyone's game. The cost of human capital is so much more expensive than the cost of salaries. Therefore, you find companies going to cities where the talent is, even if compensation for employees is higher on a relative basis. They can’t afford to be in secondary and tertiary markets where the best talent is not interested in living. The war for talent is one of the biggest motivations for many of our tenants.”

“Investors feel the market has an oversupply of retail space, but we think owners who have reinvigorated their properties are seeing the fruits of their labors, even if they aren’t quite where they want to be yet. We think successful retail owners are following a similar pattern: replace, change, add mixed uses and entertainment. Proper food and beverage programs seem to be providing reinvigoration and new foot traffic for malls.”

“The market feels peaky to us. We’ve achieved new levels of valuation in most markets and now we’re worried about prices in most markets.”

“As we’ve looked at where we execute on our development strategy, we’ve realized it's easy to develop anywhere. Labor and material costs have not come down, land costs have not come down enough and if they have, it's hard to make heads or tails of why. It's just become situational: certain markets with certain product types and the right capitalization, it makes sense.”

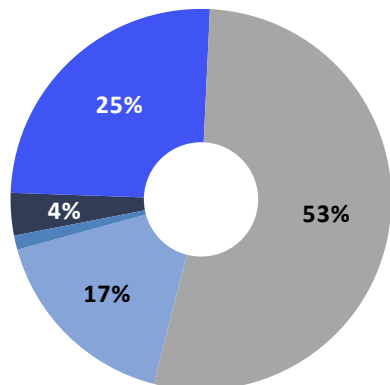
Exhibit 2

Perspectives on Real Estate Market Conditions

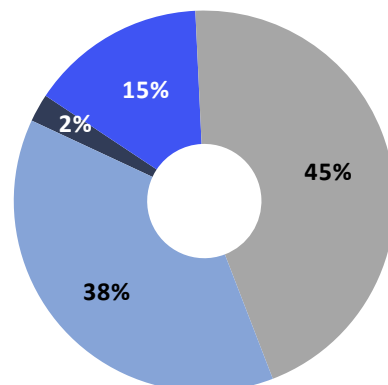
% of respondents

■ Much worse ■ Somewhat worse ■ About the same ■ Somewhat better ■ Much better

Today vs. One Year Ago



One Year From Now vs. Today



Asset Values

More than 65% of respondents anticipate asset values to maintain their current level or be somewhat higher going into 2020. Additionally, half also suggested asset values increased over the past year. Respondents consistently suggested the number of buyers for assets was decreasing, a factor which is creating challenging selling and buying circumstances.

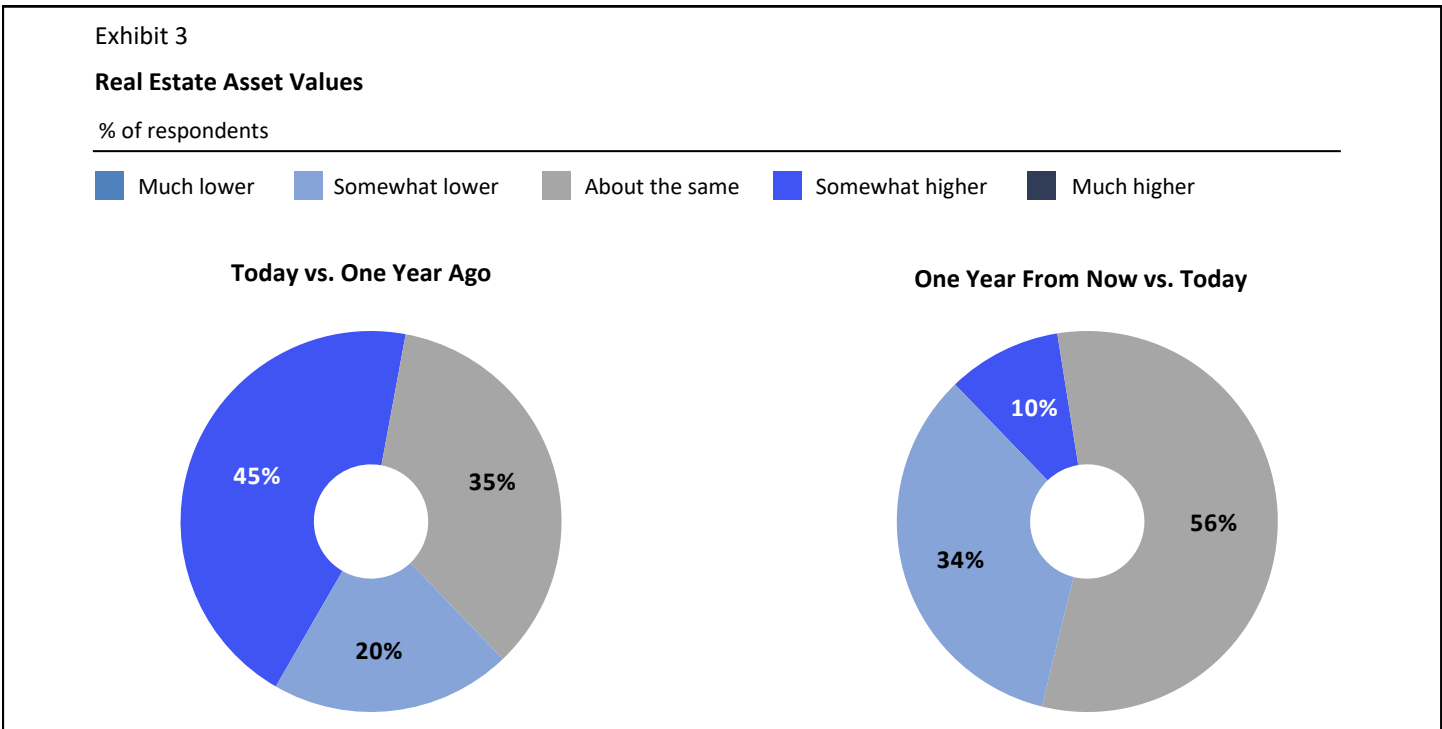
“There’s a great quantity of money chasing too few deals. I don’t see this situation changing soon. Sellers are seeking specific, often lofty, prices and they won’t sell if they don’t hit their number. Low trade volumes can be frustrating for people, and there are always ways to create deals, which is where folks get in trouble.”

“Prices keep going up. Land values are going up like crazy. Rents are growing. I think people are going to get hurt. When groups are buying where they are able, instead of where they should, it’s not going to end well for everyone.”

“Growth in pricing is present, but the depth of the bidder pool is in decline. Core and core-plus buyers are really limited.”

“In the retail property market, there’s very little transacting; malls, B-quality, and below aren’t being touched. There’s still turmoil in the market with more retailers closing stores, so until it settles down, it’ll be hard to tell what the true demand is in the retail market.”

“There’s nothing more challenging than having a static mall. There are a lot of groups who want to sell their retail assets, but there are not a lot of transactions. The majority of deals you do see are being executed for the underlying land. The prices achieved in these transactions seem reasonable if not low for the relative value of the investments.”



Capital Markets

Most respondents feel debt and equity capital are readily available for quality investments. The availability of capital and refinancing opportunities are offsetting a decline in buyers/investors in some markets.

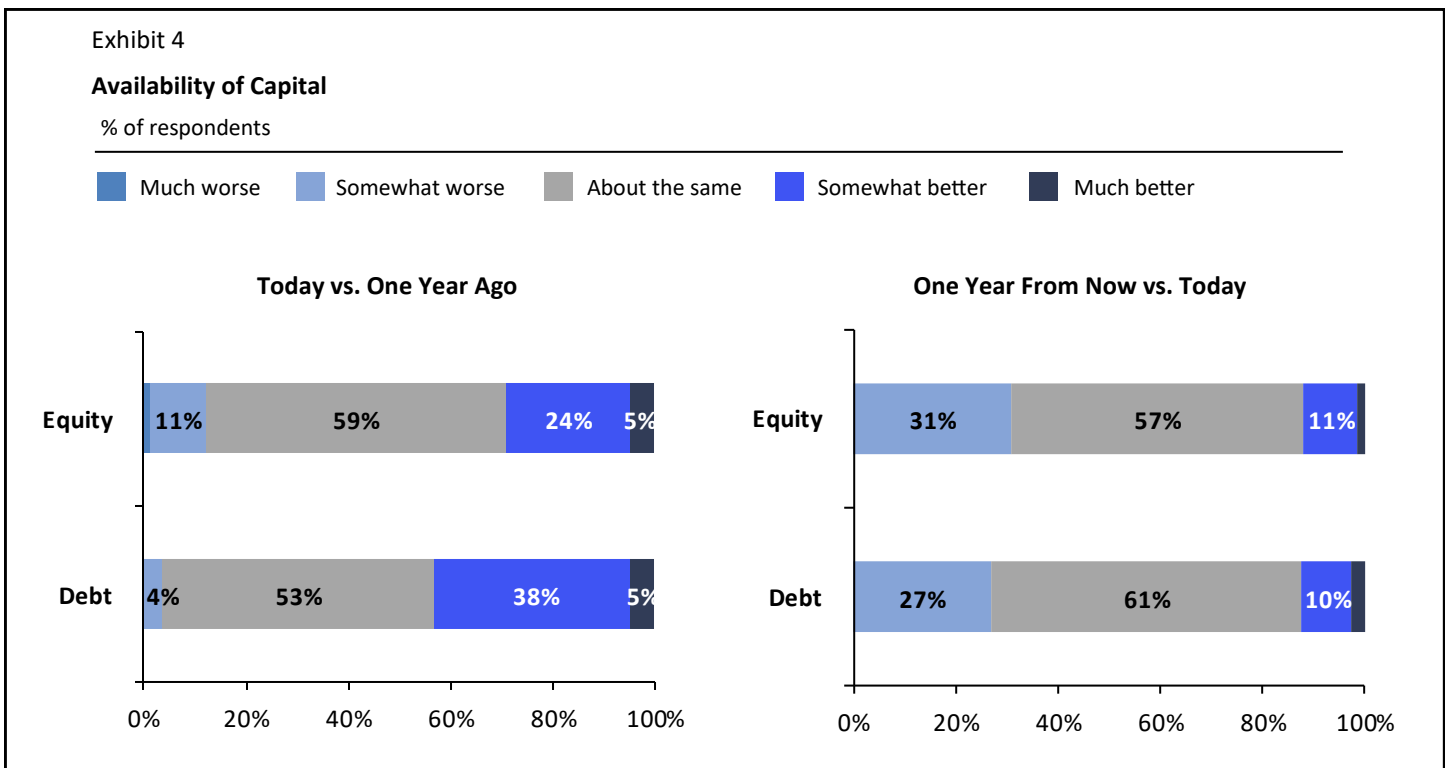
“Coastal markets are still flush with capital and very attractive for a variety of capital sources. We’re seeing sellers hold onto assets if they can’t find capital willing to meet their pricing. The abundance of financing options allows these sellers to refinance rather than sell and we feel like this trend will continue.”

“There’s enough capital out there that folks who find themselves at the end of their loan term can simply borrow from elsewhere; the pressure of loss is pushed out because of the quantity of capital available.”

“Debt and equity are extraordinarily available. With that said, we are seeing a little retrenchment relative to the availability of capital; the 75% loan last year is a 70% loan today.”

“If you are a public company, you can raise as much capital as you want, at an all time low cost. The biggest risk to all of us is, if there is another significant downturn, the regulations in place are going to put the brakes on a lot of the mechanics that helped us out during the Great Recession. The normal functioning of the markets will be interesting to watch.”

“Equity investment into office properties seems to be slowing slightly. There’s limited liquidity for office product across the country with some pocket exceptions. Investors with a long-term hold strategy are an exception and are continuing to invest in the sector.”



Participants

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

Mark E. Rose
Earl E. Webb
Avison Young

John Cibinic
Beekman Advisors, LLC

Henry H. Chamberlain
BOMA—Building Owners & Managers Association Intl.

Owen D. Thomas
Boston Properties

Richard J. Campo
Camden Property Trust

Douglas M. Pasquale
Capstone Enterprises Corp.

Robert M. Stern
Castle Hill Investors

Mike Lafitte
CBRE

Sean Burton
Cityview

Alan L. Gosule
Clifford Chance, LLP

Steven DeFrancis
Cortland

Chuck Lee
Credit Suisse Securities (USA) LLC

John C. Cushman, III
Cushman & Wakefield, Inc.

Charles H. Wurtzbach
DePaul University - Real Estate Center

A. William Stein
Digital Realty

Jay Epstein
DLA Piper

Dan A. Emmett
Douglas Emmett, Inc.

Daniel M. Neidich
Dune Real Estate Partners LP

Marshall Loeb
EastGroup Properties, Inc.

Jodie W. McLean
EDENS

Anthony E. Malkin
Empire State Realty Trust, Inc.

Peter E. Baccile
First Industrial Realty

Alex Klatskin
Forsgate Industrial Partners

Jonathan J. Ofer
Global Holdings Management (US)

Gregory P. Fuller
Granite Properties

Kevin A. Shields
Griffin Capital Company, LLC

Dean Parker
Hinshaw & Culbertson, LLP

Thomas J. Hutchison, III
Hutchison Advisors, Inc.

Richard I. Gilchrist
Irvine Company

Robert C. Lieber
Island Capital Group, LLC

Scott O. Jones, P.E.
Jacobs, Inc.

Michael J. McNamara
John Hancock/Manulife

Guy K. Johnson
Johnson Capital Group, Inc.

Geordy Johnson
Johnson Development Associates, Inc.

John Kilroy
Kilroy Realty Corporation

Conor Flynn
Kimco Realty Corp.

Ralph Rosenberg
KKR

Matthew J. Lustig
Lazard

Tim Byrne
Lincoln Property

Michael H. Lowe
Robert J. Lowe
Lowe

Eric Bolton, Jr.
MAA, Inc.

Edward P. Roski, Jr.
Majestic Realty Co.

Kevin J. McMeen
MidCap Financial, LLC

James H. Miller
Miller Global Properties

Bob Nicolls
Monarch Investment and Mgmt. Group

Thomas F. Moran
Moran & Company



David L. Ferrero
Mosaic Building Group

John Z. Kukral
Northwood Investors

Reisa Bryan
Nuveen Real Estate

Albert P. Behler
Paramount Group, Inc.

David Durning
PGIM Real Estate Finance

Devin I. Murphy
Phillips Edison

Todd Everett
Principal Real Estate Investors

Seth Martin
Pritzker Realty Group, LLC

Peter M. Fass
Proskauer Rose, LLP

Jerry L. Starkey
RE Partners International

Richard S. Ziman
Rexford Industrial Realty, Inc.

Daniel J. Moore
Rockefeller Group International, Inc.

Michael R. McElroy
Ryan Companies US, Inc.

Richard Sapkin
Sapkin Development

Glenn A. Shannon
Shorenstein Properties, LLC

Marty Burger
Silverstein Properties

Benjamin S. Butcher
STAG Industrial, Inc.

Skip Wells
State Street Global Advisors

John F. Fish
Suffolk

Anthony Dona
Thackeray Partners

Michael A. Covarrubias
TMG Partners

Greta Guggenheim
TPG Real Estate Finance Trust

Jeffrey E. Zabel
Tufts University - Dep. of Economics

Thomas W. Toomey
UDR

Jaap L. Tonckens
Unibail-Rodamco-Westfield

James Hime
USAA Real Estate

Devon W. Olson
Utah Retirement Systems

Gary M. Tischler
Vanbarton Group, LLC

Randal J. Richardson
Vi

Walker Noland
Virginia Retirement System

Jason Fox
W.P. Carey Inc.

Mark Myers
Wells Fargo

Edward A. Peterson
Winstead P.C.



Contact

Please direct all inquiries regarding this study to:

Mr. Travis Kononen

Managing Director

Ferguson Partners Ltd.

220 Montgomery Street, Suite 334

San Francisco, CA 94104

Phone: (628) 213-7708

E-mail: tkononen@fergusonpartners.com

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