First Quarter 2025

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 Q1 2025 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. Real estate asset values
3. Access to capital markets

Topline Findings

- The Q1 2025 Real Estate Roundtable Sentiment Index registered an overall score of 68, a decrease of 5 points from the previous quarter. The Current Index registered 65, a 4-point decrease compared to Q4 2024. The Future Index posted a score of 70 points, a decrease of 7 points from the previous quarter, indicating optimism for the impact of potential rate cuts has subsided. Nevertheless, survey participants are cautiously optimistic that transaction activity and capital deployment will continue to normalize in 2025. Interest rates, insurance costs, and the implications of the Trump administration are top of mind for many investors.

- Evolving market trends continue to shape the real estate landscape. A majority (70%) of Q1 survey participants expect general market conditions to show improvement one year from now. Additionally, 61% of respondents said conditions are better now compared to this time last year. Only 2% of Q1 participants expect general market conditions to be somewhat worse in a year. A substantial volume of industrial and multifamily assets came online in 2024, though activity is expected to slow in 2025. Return-to-office mandates thus far are not moving the needle on office assets, of which class B and C continue to struggle.

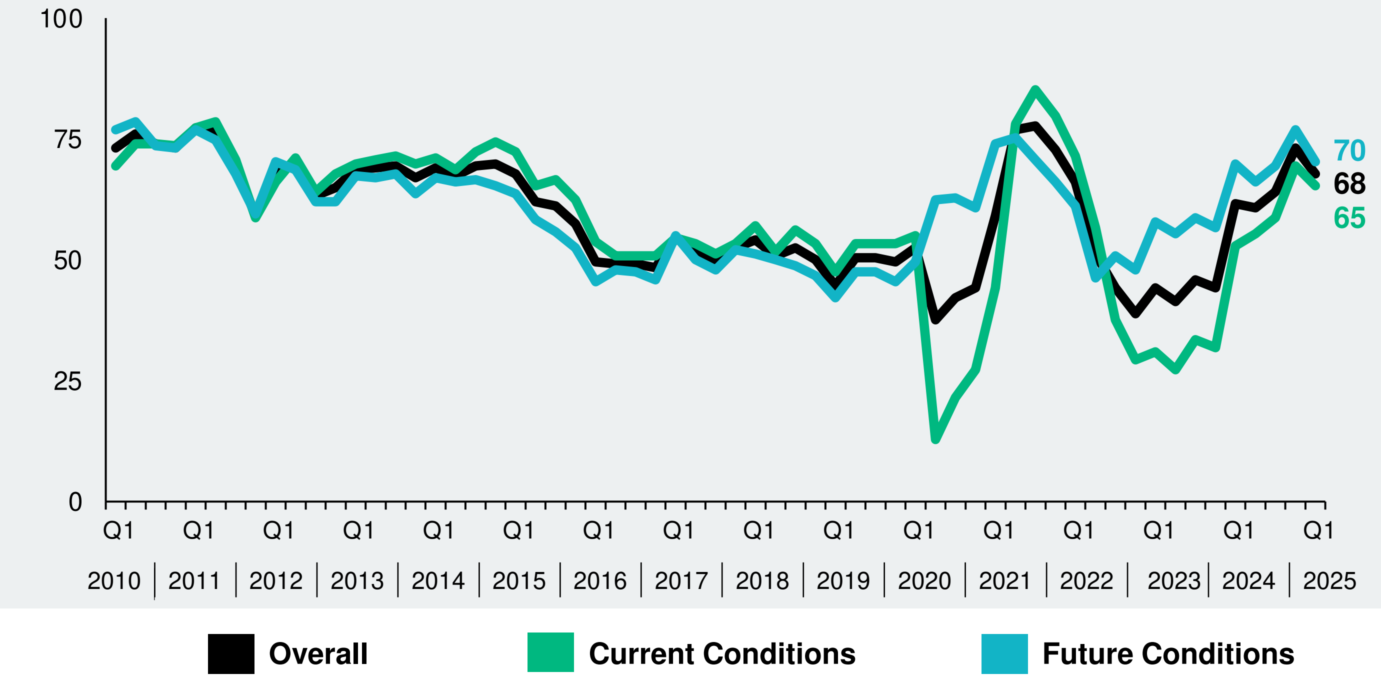
- A plurality of participants (45%) believe asset values have not meaningfully changed from where they were a year ago. However, respondents are overall optimistic, with most (56%) predicting that asset values will be higher one year from now.

- The real estate capital markets have seen steady improvement. 47% of respondents believe the availability of equity capital is better than it was a year ago, while 62% said the availability of debt capital has improved from last year. Looking forward, virtually all respondents believe that capital availability will be the same or better in one year (99% and 98% for equity and debt capital, respectively).

[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

Exhibit 1 – Sentiment Index (Aggregate)



- In the Q1 RER Sentiment Survey, participants rated the overall market conditions as a score of 68, current conditions as 65, and future conditions as 70
- Compared to one year ago, sentiments of overall conditions are up by 7 points, perceptions of current conditions are up by 12 points, and future conditions remained flat
- In comparison to last quarter, sentiments on current conditions are down by 4 points, perceptions of future conditions are down by 7 points, and overall conditions are down by 5 points

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General Conditions

The Q1 2025 Real Estate Roundtable Sentiment Index registered an overall score of 68, a decrease of 5 points from the previous quarter. The Current Index registered 65, a 4-point decrease compared to Q4 2024. The Future Index posted a score of 70 points, a decrease of 7 points from the previous quarter, indicating optimism around the impact of rate cuts has subsided. Nevertheless, survey participants are cautiously optimistic that transaction activity and capital deployment will continue to normalize in 2025. Interest rates, insurance costs, and the implications of the Trump administration are top of mind for many investors.

“I anticipate increased transaction activity across both debt and equity in 2025, which will provide liquidity to LPs and help revive the fundraising market.”

“The real estate market was more robust at the end of September than it is now, given the excitement over rate cuts has died down. But there is a large amount of dry powder that has to find a home, and it’s not going to wait forever.”

“We were more hopeful a few months ago but conditions continue to be challenging, driven by capital markets. With rate cuts the short end of the curve has gotten even shorter.”

“There was a recovery in the second half of 2024 when rates went from 4.5 to 3.75 and we saw deal activity, but core capital did not return and has not yet. At 4.75 I’m less hopeful that it will return soon.”

“Everybody in the business is thinking about climate risk. Regulatory bodies are tasking us with the responsibility of determining how we will self regulate and set climate risk parameters. We’re working to define what that means.”

“It’s reality that rates are not going to come down any more than they are. We’re going to see some normalization, not a full-throated swing back to booming transactions or new development, but pent-up capital will come back to the marketplace. People will find a way to make the numbers work.”

“We are cautiously optimistic about the upcoming administration. I think some of the policies, such as tax incentives or something like the Tax Cuts and Jobs Act (TCJA), will increase investment overall.”

General Conditions (continued)

Evolving market trends continue to shape the real estate landscape. A majority (70%) of Q1 survey participants expect general market conditions to show improvement one year from now. Additionally, 61% of respondents said conditions are better now compared to this time last year. Only 2% of Q1 participants expect general market conditions to be somewhat worse in a year. A substantial volume of industrial and multifamily assets came online in 2024, though activity is expected to slow in 2025. Return-to-office mandates thus far are not moving the needle on office assets, of which class B and C continue to struggle.

“We have excess industrial supply in every primary market, perhaps every secondary market as well. I’m optimistic supply will slow down, but I haven’t seen significant pullback of new starts.”

“The office market is bifurcated between high quality office and class B and below. There is a shortage of high-quality office. It’s not a landlord's market but certain assets in certain markets allow for landlord pricing discretion.”

“Fundamentals continue to be strong across the landscape. We should have seen a peak level of industrial and multifamily construction activity in 2024. Now, hopefully, we see a bit of a slowing of deliveries.”

“There is some thawing of office assets that are build to suit investment grade. We may continue to see thawing, aided by slow return to office initiatives, but it won’t be enough to make a difference.”

“Multifamily assets are going to see an outsized value over the next several years. We will also see a shift from a renters market to a landlord market.”

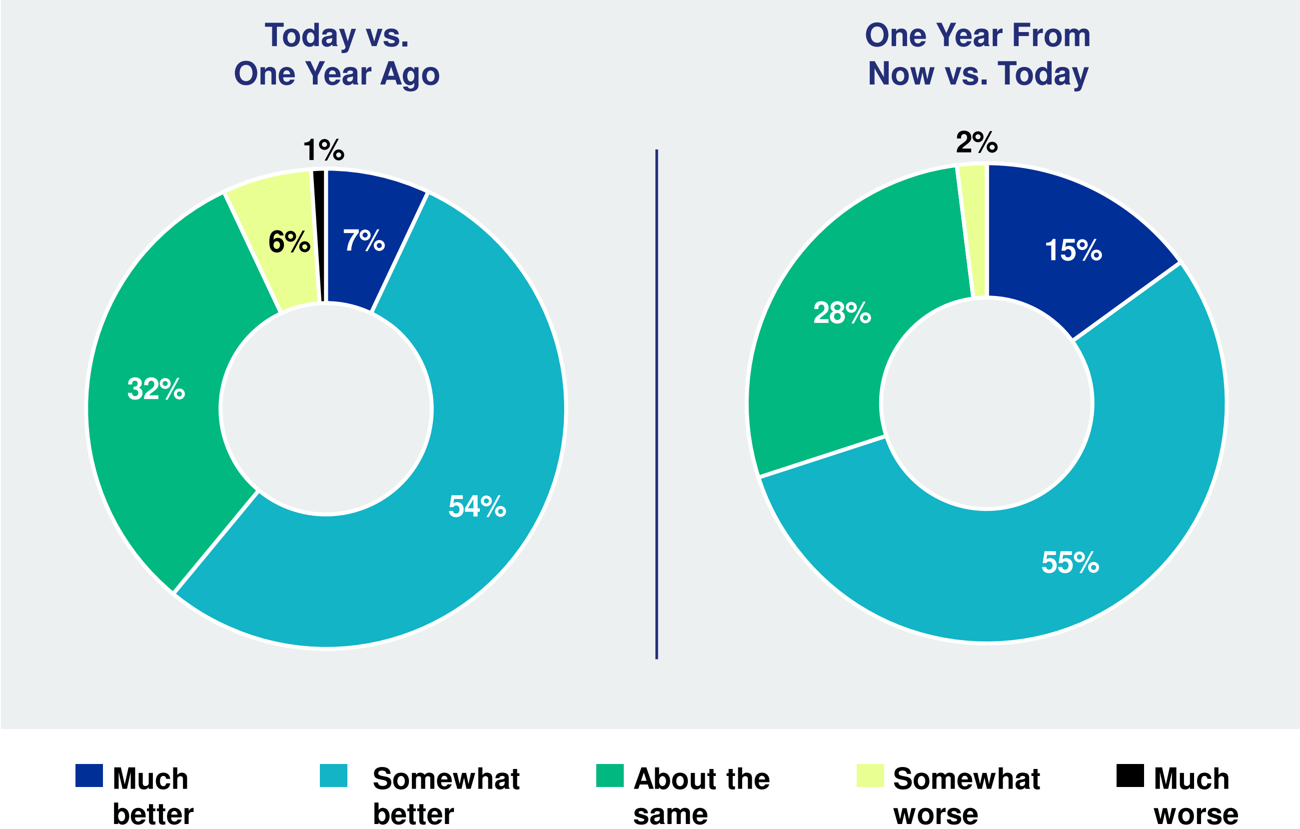
“Supply is going to impact cap rates in the industrial sector. We’ve already seen it come up a bit due to oversupply in certain markets. Valuations will decline and cap rates will go up, and we’ll have expected that due to supply.”

“In 2024 the leisure and travel sector saw extremely strong bulk transaction volume in credit and special situations, and we expect that momentum to continue into 2025. On the equity side there is still a bid-ask gap, so we’re not seeing many transactions.”

General Market Conditions

% of respondents

Exhibit 2 – Perceptions on General Market Conditions



- Regarding sentiment on current market conditions, 7% believe it is a less favorable environment compared to one year ago, 61% feel it has improved, and 32% believe conditions remain the same.
- Current perceptions fall short of the expectations outlined twelve months ago, where 74% of participants anticipated an improvement in general market conditions, whereas only 61% of Q1 2025 participants believe conditions have truly improved.
- Looking towards the future, 70% of participants believe that a year from now will present more favorable market conditions.

Asset Values

Nearly half of participants (45%) believe asset values have not meaningfully changed from where they were a year ago. However, respondents are overall optimistic, with most (56%) predicting that asset values will be higher one year from now.

> Transactions are at an all time low, on par with 2008. While asset valuations seem stable, we won't have true price discovery until buildings start trading again."

> Location is the biggest factor when determining asset values right now – a class A building in San Francisco is not going to be the same as a class A building in Atlanta or Houston."

> Multifamily is trading at all-time tight spreads, and that's largely tied to the cost of financing."

> In the public markets, REITs are trading at lower multiples, and some are at a discount to pre-COVID values. I think there will be a lot of activity in that space, whether it's consolidations or take-privates."

> We've had to completely rethink our assumptions on insurance costs; they will be much higher for the foreseeable future compared to historical levels. They've depressed property values, but it will take time for property taxes to catch up with those values."

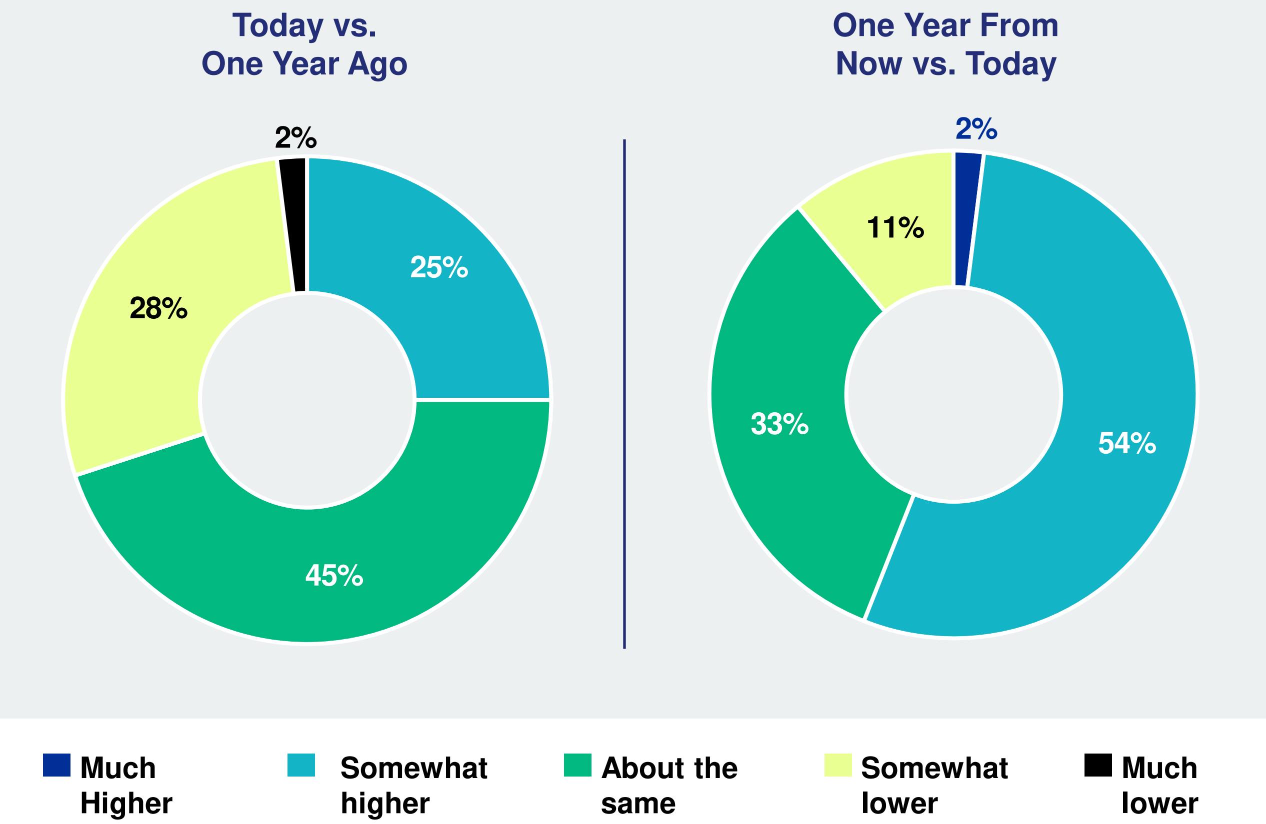
> Industrial asset prices have not dropped, even though interest rates have risen significantly."

> On balance, I think asset values are roughly the same as they were twelve months ago, and I think they'll be the same for the next twelve months."

Real Estate Asset Values

% of respondents

Exhibit 3 – Perceptions on Asset Values



- Regarding sentiment on the state of current asset values, 30% believe they are lower than one year ago, 25% feel they are higher, and 45% believe asset values have remained the same compared to a year ago.
- This differs from the Q1 2024 RER Sentiment Survey, where 39% of participants expected asset values to rise by Q1 2025, reflecting a slight drop in asset value expectations.
- Looking forward, 56% of participants believe that a year from now will present more favorable asset values, 33% believe they will remain the same, and only 11% believe we will see lower asset values.

Capital Markets

The real estate capital markets have seen steady improvement. 47% of respondents believe the availability of equity capital is better than it was a year ago, while 62% said the availability of debt capital has improved from last year. Looking forward, virtually all respondents believe that capital availability will be the same or better in one year (99% and 98% for equity and debt capital, respectively).

“In terms of equity availability, I feel better than I have anytime in the past twelve months."

“It's difficult at this point to create a new relationship on the debt side. People are lending with existing relationships, or with very strong sponsors who want very low leverage."

“Equity has been a challenge over the past three years as LPs have been struggling with their own liquidity, but people have a desire to put money out for the right opportunity."

“Equity fundraising has been successful for large incumbents, but for middle-market and emerging managers, it has been frustrating."

“Banks are coming back, and private credit is growing like crazy. But you can't create returns through cheap debt anymore, you have to grow cash flow and underwrite reasonable returns."

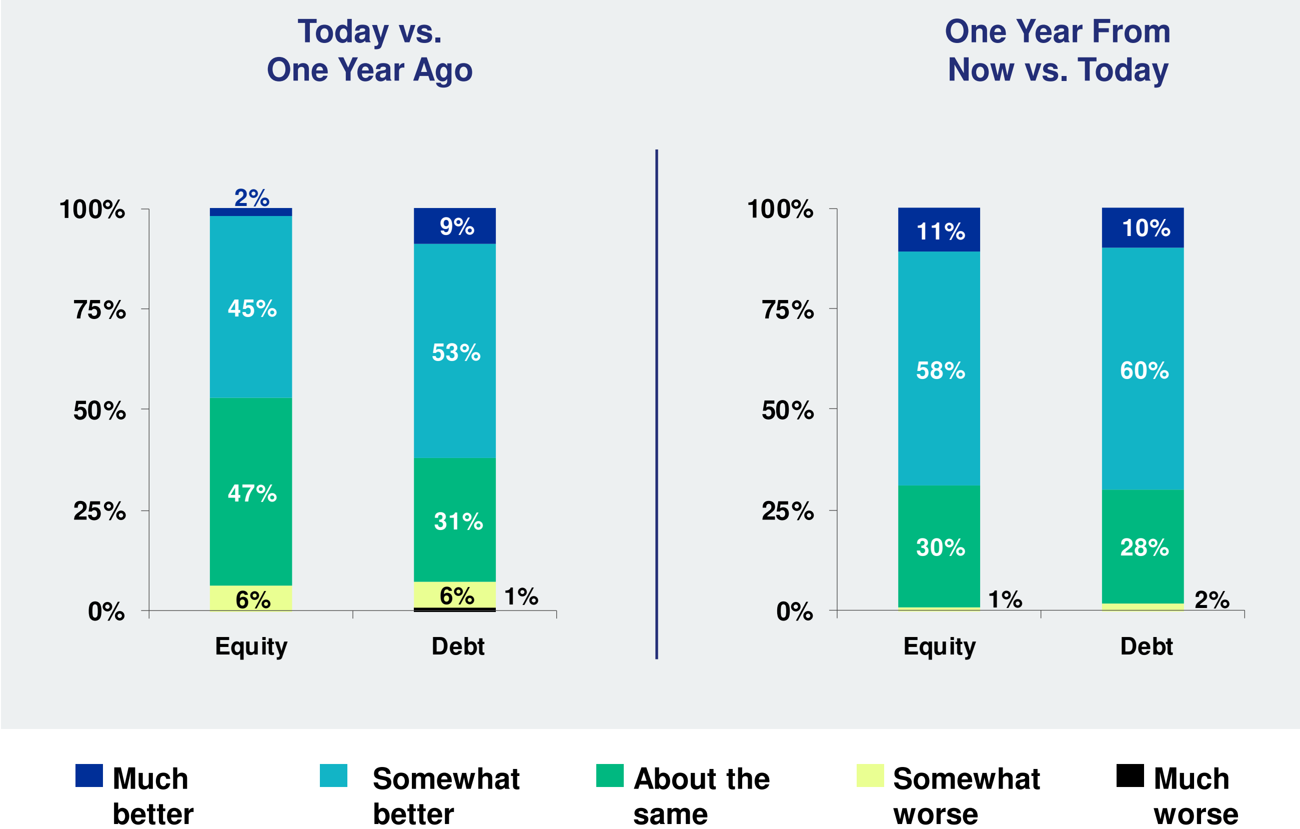
“There's equity interest for opportunistic strategies, particularly new developments in preferred property types."

“The debt markets are still dislocated but certain corners have been robust. CMBS had a record year in 2024, largely because so many more people were focused on debt than equity."

Availability of Capital

% of respondents

Exhibit 4 – Perceptions on the Availability of Debt and Equity Capital



- Regarding sentiment on the availability of equity capital, 6% believe it is worse compared to one year ago, 47% feel it has improved, and 47% believe the availability of equity remains the same.
- In terms of the availability of debt capital, 7% of participants believe it is worse compared to one year ago, 62% feel it has improved, and 31% believe the availability of debt remains the same.
- Looking towards the future, 69% and 70% of participants believe that equity and debt availability, respectively, will be better one year from now, while only 1% and 2% of participants believe that capital availability will be worse one year from now.

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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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About Ferguson Partners Consulting

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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About The Real Estate Roundtable

The Real Estate Roundtable brings together leaders of the nation's top publicly-held and privately-owned real estate ownership, development, lending and management firms with leaders of major national real estate trade organizations to jointly address key national policy issues relating to real estate and its important role in the global economy.

The collective value of assets held by Roundtable members exceeds $4 trillion. The Roundtable's membership represents more than 3 million people working in real estate; 12 billion square feet of office, retail and industrial space; over 4 million apartments; and more than 5 million hotel rooms. It also includes the owners, managers, developers and financiers of senior, student, and manufactured housing—as well as medical offices, life science campuses, data centers, cell towers, and self-storage properties.

The Roundtable's policy news and more are available on The Roundtable website.

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