Second Quarter 2024

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 Q2 2024 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 Q2 2024 Real Estate Roundtable Sentiment Index registered the same overall score of 61 from the previous quarter. The Current Index registered 55, a 2-point increase over Q1 2024. The Future Index posted a score of 66 points, a decrease of 4 points from the previous quarter, indicating that uncertainty surrounding the future of asset values and availability of capital persists.

- Evolving market trends continue to shape the real estate landscape. A majority (66%) of Q2 survey participants expect general market conditions to show improvement one year from now. Additionally, 45% of respondents said conditions are better now compared to this time last year. Only 11% of Q2 participants expect general market conditions to be somewhat worse in a year, a slight increase from 6% in Q1.

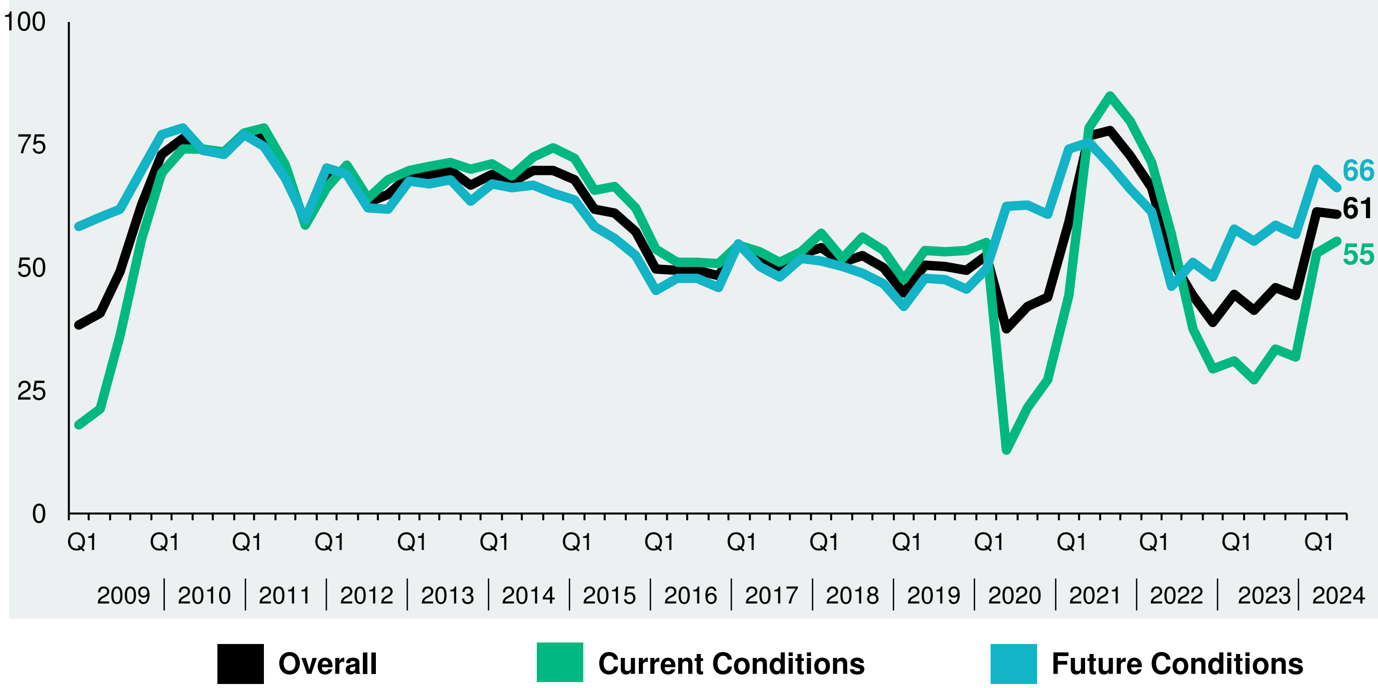
- Class B office properties are facing ongoing challenges, attributed to an ongoing "flight to quality." Industrial and multifamily sectors show tempered growth, yet their underlying fundamentals remain robust. Retail sectors are healthy, propelled by consumer spending, while interest in data centers continues to ascend.

- A significant 75% of Q2 survey participants expressed optimism that asset values will be higher (44%) or the same (31%) one year from now, indicating some semblance of expected stability. The real estate capital markets landscape remains challenging. For the current quarter, 65% believe the availability of equity capital will improve in one year, while 64% said the availability of debt capital will improve in one year. The 36% of participants who said the availability of debt capital would be worse in one year is an increase from 24% in Q1 who voiced the same expectation.

[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



- In the Q2 RER Sentiment Survey, participants rated the overall market conditions as a score of 61, current conditions as 55, and future conditions as 66
- Compared to one year ago, sentiments of current conditions are up by 28 points, perceptions of future conditions are up by 11 points, and overall conditions are up by 20 points
- In comparison to last quarter, sentiments on current conditions are up by 2 points, perceptions of future conditions are down by 4 points, and overall conditions show no change

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 2024 Real Estate Roundtable Sentiment Index registered the same overall score of 61 from the previous quarter. The Current Index registered 55, a 2-point increase over Q1 2024. The Future Index posted a score of 66 points, a decrease of 4 points from the previous quarter, indicating that uncertainty surrounding the future of asset values and availability of capital persists.

“Real estate fundamentals are shaping up to be very strong in one to two years. Companies that have a long-term perspective and can be patient will benefit from strong employment growth, demographic shifts, and stable occupancies.”

“If the ‘higher for longer’ environment continues, it will continue to unfavorably impact values and the availability of debt and equity financing.”

“There is a gap between the fundamentals of most asset classes and the capital markets. Cap rates do not reflect high interest rates, driving the gap between buyers and sellers.”

“From an equity investment perspective, we’re seeing an increase in the number of properties on the trading block. Sellers are finding outlier buyers that are willing to be more aggressive and accept lower rates.”

“There is a distress element to virtually any vehicle or asset put on the market today. The increase in investment demand comes from a growing sense that prices have bottomed, even if values have not.”

“Operating costs are a challenge across the industry, particularly for availability and costs of insurance. We need to be smarter about how we buy insurance without sacrificing coverage.”

“Core is a four-letter word, and investors are putting their dollars to work in other sectors, like debt. Institutions are looking for a core-plus risk profile, but with value-add returns. Core is not going away, though; money will go back into those markets at some point."

General Conditions (continued)

Evolving market trends continue to shape the real estate landscape. A majority (66%) of Q2 survey participants expect general market conditions to show improvement one year from now. Additionally, 45% of respondents said conditions are better now compared to this time last year. Only 11% of Q2 participants expect general market conditions to be somewhat worse in a year, a slight increase from 6% in Q1. Class B office properties are facing ongoing challenges, attributed to ongoing “flight to quality.” Industrial and multifamily sectors show tempered growth, yet their underlying fundamentals remain robust. Retail sectors are healthy, propelled by consumer spending, while interest in data centers continues to ascend.

“Slowing rent growth in the multifamily sector can be attributed to the surge of new supply entering the market. Nevertheless, the sector has robust fundamentals, characterized by high occupancy rates and a decline in new construction starts, indicating a potential surge in demand down the line."

“The hotel industry is witnessing a convergence of business and leisure travel, where Friday through Sunday are the busiest days. This evolution is reshaping market dynamics and influencing underwriting strategies and pricing structures as stakeholders strive to revive business travel to pre-pandemic levels."

“Everyone was waiting for the inevitable death of retail as we know it because of e-commerce and Covid-19. However, people are coming to realize that we, as humans, like to shop."

“In the office sector, significant capital has been raised to deploy into distressed properties."

“As other asset values fall, data centers are the exception. The AI revolution is very demanding on the data center supply, which is putting pressure on the limited supply, driving rents up."

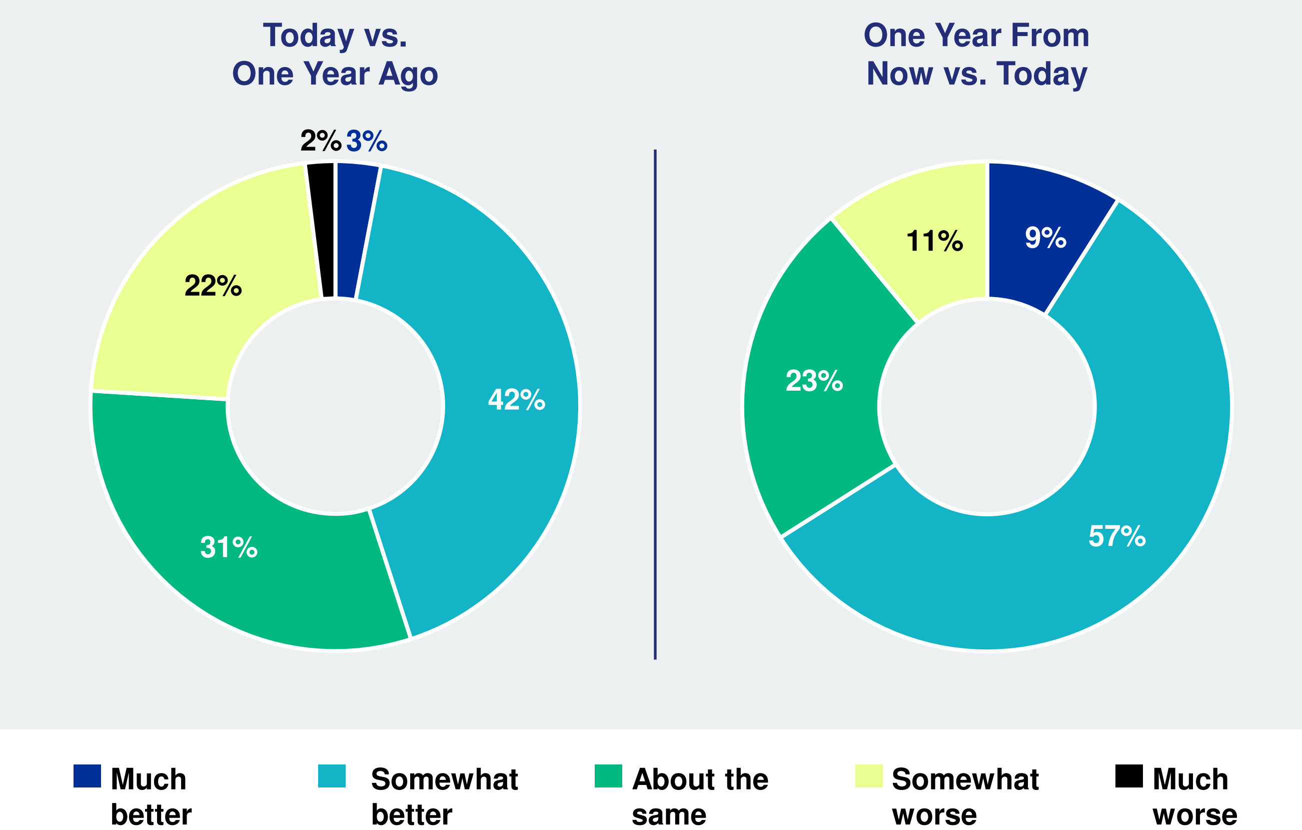
“The mom-and-pop investors who own class B office are hurting the most. The institutional investors are diversified, so they are faring better."

“Consumer spending is still strong and, in some cases, it’s better to re-tenant than to renew leases in order to grow higher rents in the retail space.”

General Market Conditions

% of respondents

Exhibit 2



- Regarding sentiment on current market conditions, 24% believe it is a less favorable environment compared to one year ago, 45% feel it has improved, and 31% believe conditions remain the same
- This is fairly close to the Q2 2023 RER Sentiment Survey where 48% of participants believed that general market conditions would be better in Q2 2024
- Looking towards the future, 66% of participants believe that a year from now will present more favorable market conditions

Asset Values

A significant 75% of Q2 survey participants expressed optimism that asset values will be higher (44%) or the same (31%) one year from now, indicating some semblance of expected stability.

Asset values have certainly fallen; whether sellers are looking to accept what people are willing to pay is the big question."

It's hard to get a really good read on values due to the spread between buyers and sellers. Many assets coming to market have not been trading since the gap has been so wide. We'll have more transparency in the next six months than we have had in the past 12-18 months."

I do not think we will see any rebound to where asset values were pre-2022, but predictability in interest rates leads to predictability in cap rates, which leads to stabilization of asset values."

Across the board, there has been a value reset – valuations from every product type and location have all dropped. Everybody is down, and I don't think we're at the bottom."

Cap rates across the board have risen dramatically, 150 basis points or so. In most situations – anything but office – that means you've hit the bottom and cap rates won't widen any further."

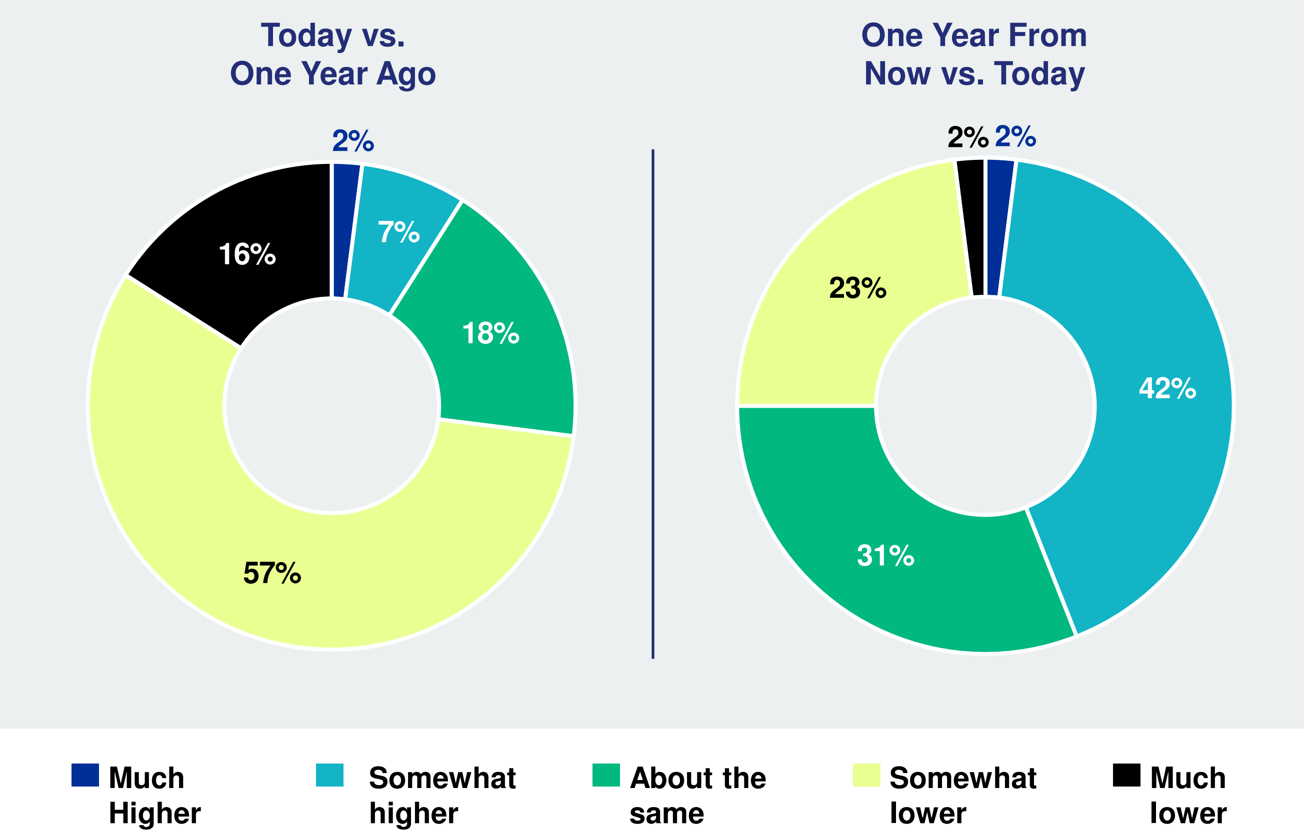
While pricing may have bottomed out, the market still exhibits resilience, sustained by shifting consumer preferences and evolving industry trends."

Stability in asset values isn't just about reaching pre-2022 levels; it's about establishing a new norm based on sustainable growth."

Real Estate Asset Values

% of respondents

Exhibit 3



- Regarding sentiment on the state of current asset values, 73% believe they are lower than one year ago, 9% feel they are higher, and 18% believe asset values have remained the same compared to a year ago
- A majority of respondents (75%) expect asset values to be about the same or higher one year from now. This compares to last year's Q2 Sentiment survey, when 58% of participants expected asset values would be higher now, indicating a greater-than-anticipated decline in asset values over the past year
- Looking towards the future, 44% of participants believe that a year from now will present more favorable asset values, 31% believe they will remain the same, and only 25% believe we will see lower asset values

Capital Markets

The real estate capital markets landscape remains challenging. For the current quarter, 65% believe the availability of equity capital will improve in one year, while 64% said the availability of debt capital will improve in one year. The 36% of participants who said the availability of debt capital would be worse in one year is an increase from 24% in Q1 who voiced the same expectation.

“ Debt capital availability is not just better, it's accompanied by lower interest rates and tightening spreads, creating a more favorable environment for borrowers."

“ Equity is scarce, no question. Availability has slightly improved versus the summer of 2023, but most of those investors have shut the doors."

“ Banks are starting to lend again, and debt capital is more available than it was last year. From a spreads perspective, competition has picked up in the last couple of months."

“ The balancing act between debt and equity availability underscores the need for a nuanced approach to capital sourcing in today's dynamic market environment."

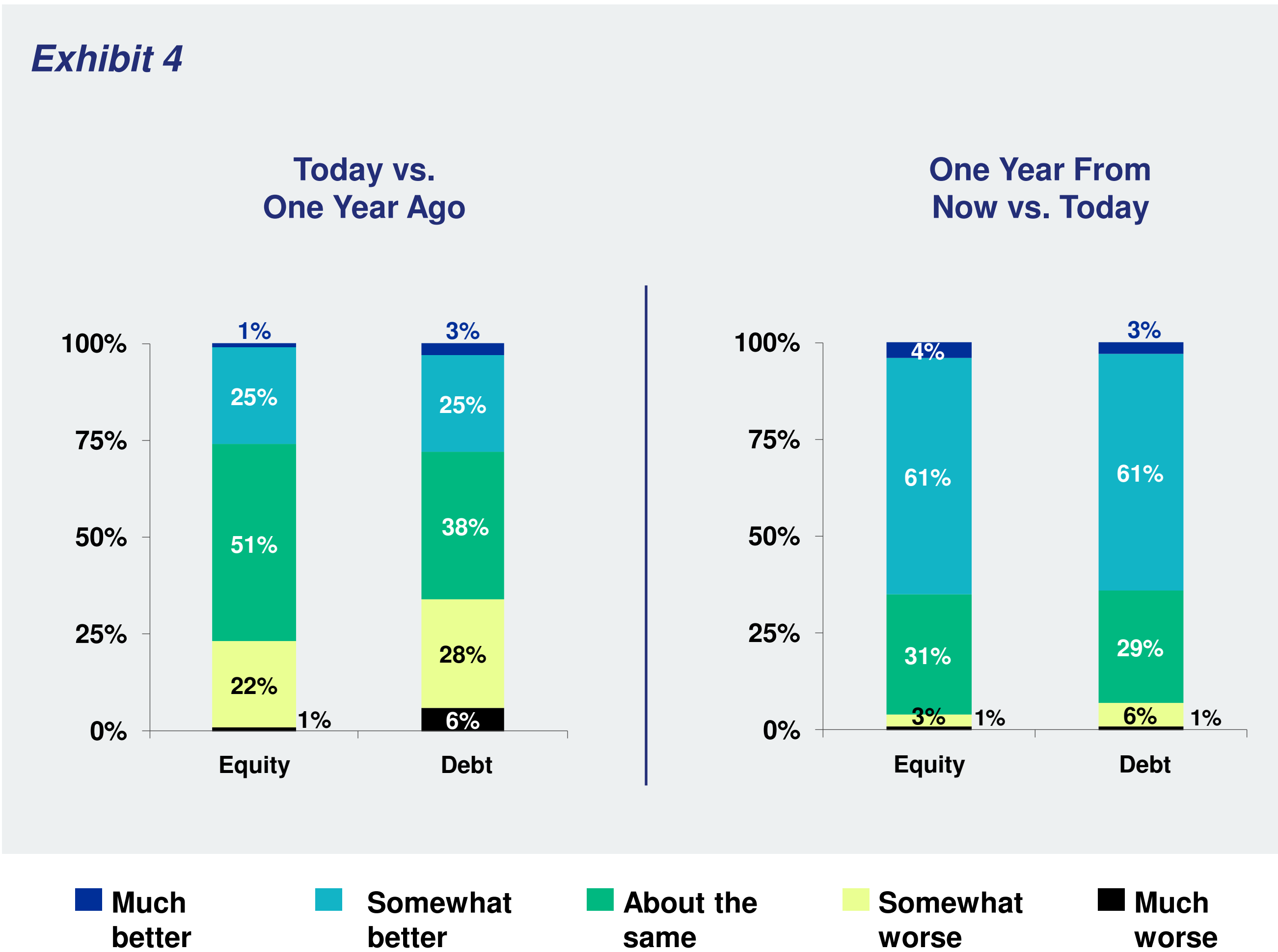
“ On the multifamily side, Fanny and Freddie are still very active and very helpful. We still have an inverted yield curve now, and many people are paying up from 1-2% on fixed rate deals to lower interest rates."

“ The U.S. has traditionally been a haven for investing in real estate, but we haven’t seen as much foreign capital as we have historically. We can’t tell if that’s because no transactions are happening or for other reasons."

“ Spreads are tightening, and lender groups have fresh allocations for 2024, competing mainly in industrial and multifamily markets."

Availability of Capital

% of respondents



- Regarding sentiment on the availability of equity capital, 23% believe it is worse compared to one year ago, 26% feel it has improved, and 51% believe the availability of equity remains the same
- In terms of the availability of debt capital, 34% of participants believe it is worse compared to one year ago, 28% feel it has improved, and 38% believe the availability of debt remains the same
- Looking towards the future, 65% and 64% of participants believe that equity and debt availability respectively will be better one year from now, 4% and 7% of participants believe that equity and debt availability respectively will be worse one year from now

Participants

(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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