



Third Quarter 2024

The Real Estate Roundtable Sentiment Index

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The Real Estate Roundtable is pleased to announce the results from the Q3 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
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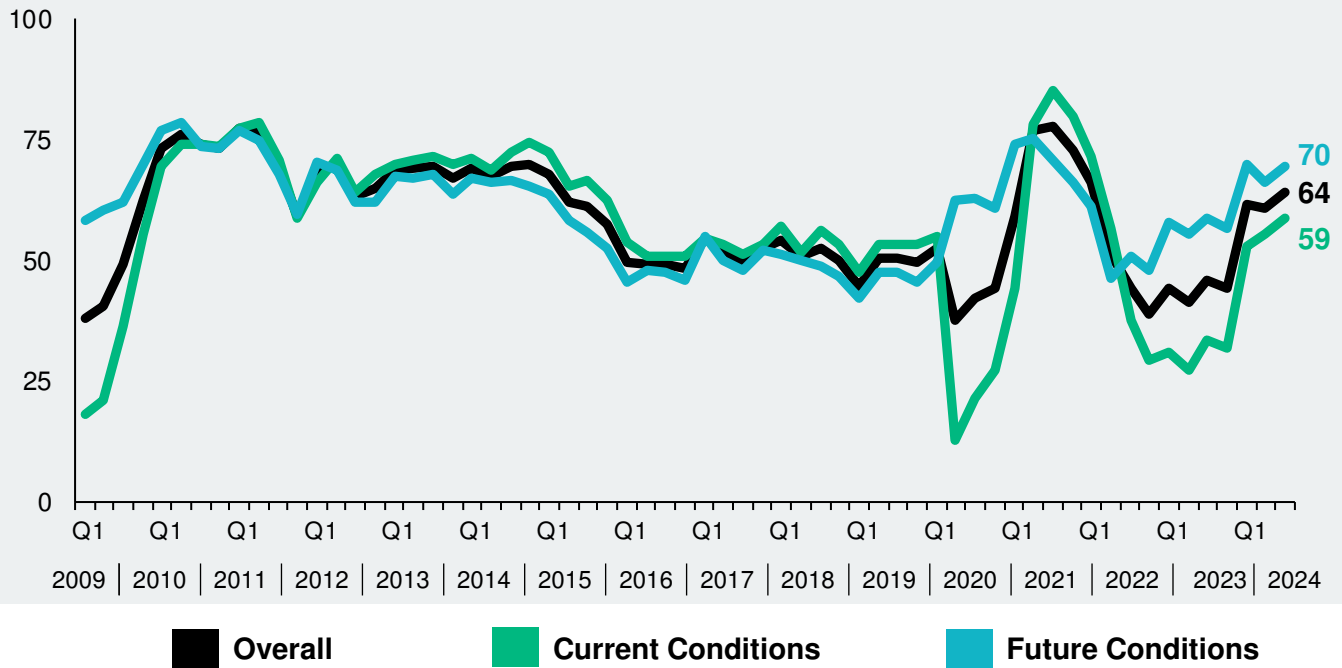
Topline Findings

- The Q3 2024 Real Estate Roundtable Sentiment Index registered an overall score of 64, an increase of 3 points over the previous quarter. The Current Index registered 59, a 4-point increase over Q2 2024. The Future Index posted a score of 70 points, an increase of 4 points from the previous quarter, indicating that uncertainty surrounding the future of asset values and availability of capital persists, but has lessened.
- Evolving market trends continue to shape the real estate landscape. A majority (70%) of Q3 survey participants expect general market conditions to show improvement one year from now. Additionally, 48% of respondents said conditions are better now compared to this time last year. Only 6% of Q3 participants expect general market conditions to be somewhat worse in a year, a decrease from 11% in Q2. Some subsector asset classes, such as data centers and student housing, are well-positioned from both a fundamentals and capital availability perspective. However, class B office properties continue to face ongoing challenges, and the fast pace of multifamily and industrial rent growth has subsided.
- A significant 88% of Q3 survey participants expressed optimism that asset values will be higher (57%) or the same (31%) one year from now, indicating some semblance of expected stability. 76% of Q3 survey participants believe asset values are slightly lower (50%) or about the same (26%) today compared to a year ago.
- The real estate capital markets landscape remains challenging. However, 71% of respondents believe the availability of equity capital will improve in one year, while 60% said the availability of debt capital will improve in one year. 40% of participants said the availability of debt capital would be the same or worse in one year-- an increase from the 36% who voiced the same expectation in Q2 of this year.

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 Q3 RER Sentiment Survey, participants rated the overall market conditions as a score of 64, current conditions as 59, and future conditions as 70
- Compared to one year ago, sentiments of current conditions are up by 26 points, perceptions of future conditions are up by 11 points, and overall conditions are up by 18 points
- In comparison to last quarter, sentiments on current conditions are up by 4 points, perceptions of future conditions are up by 4 points, and overall conditions are up by 3 points

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General Conditions

The Q3 2024 Real Estate Roundtable Sentiment Index registered an overall score of 64, an increase of 3 points over the previous quarter. The Current Index registered 59, a 4-point increase over Q2 2024. The Future Index posted a score of 70 points, an increase of 4 points from the previous quarter, indicating that uncertainty surrounding the future of asset values and availability of capital persists, but has lessened.



Overall, sentiment feels directionally better, but we still have an inverted yield curve.”



There is foreign capital starting to flow in for distressed opportunities. If managers need to move something and are willing to take a higher quality building for a lower price, you can move it for a depressed cap rate.”



It feels like an old-fashioned recession. We’ve been at it for the past 2+ years and I think we’ll be at it for another 2+ years.”



It’s still slow from a valuation and transaction perspective, but people are poised to act when they see the tea leaves improve relative to interest rates.”



There’s dry powder for value add/opportunistic deals, but what does core mean in a non-zero interest rate environment? That’s a pricing question, not an availability question.”



We’re seeing more transactions this year, but it’s not consistent. I’d estimate that we’re running at 50% of normalized transaction volume levels.”



Investors still want to allocate dollars to real estate, but there is still sentiment for defensive positioning and risk mitigation.”

General Conditions (continued)

Evolving market trends continue to shape the real estate landscape. A majority (70%) of Q3 survey participants expect general market conditions to show improvement one year from now. Additionally, 48% of respondents said conditions are better now compared to this time last year. Only 6% of Q3 participants expect general market conditions to be somewhat worse in a year, a decrease from 11% in Q2. Some subsector asset classes, such as data centers and student housing, are well-positioned from both a fundamentals and capital availability perspective. However, class B office properties continue to face ongoing challenges, and the fast pace of multifamily and industrial rent growth has subsided.

“Multifamily rents are increasing as a share of household budgets, but the pace of that growth has slowed significantly. As new buildings are completed and fewer new multifamily projects begin, the market is likely to correct over time.”

“Office to residential conversions are tricky. New York City is trying to make more buildings eligible to be converted, but the legislation isn't finished yet.”

“There's a tremendous interest in the data centers space. There's good receptivity from lenders across the spectrum as well as capital from infrastructure sources.”

“Sophisticated logistics tenants understand that there is going to be a drop-off in supply and are smart about making long-term plans.”

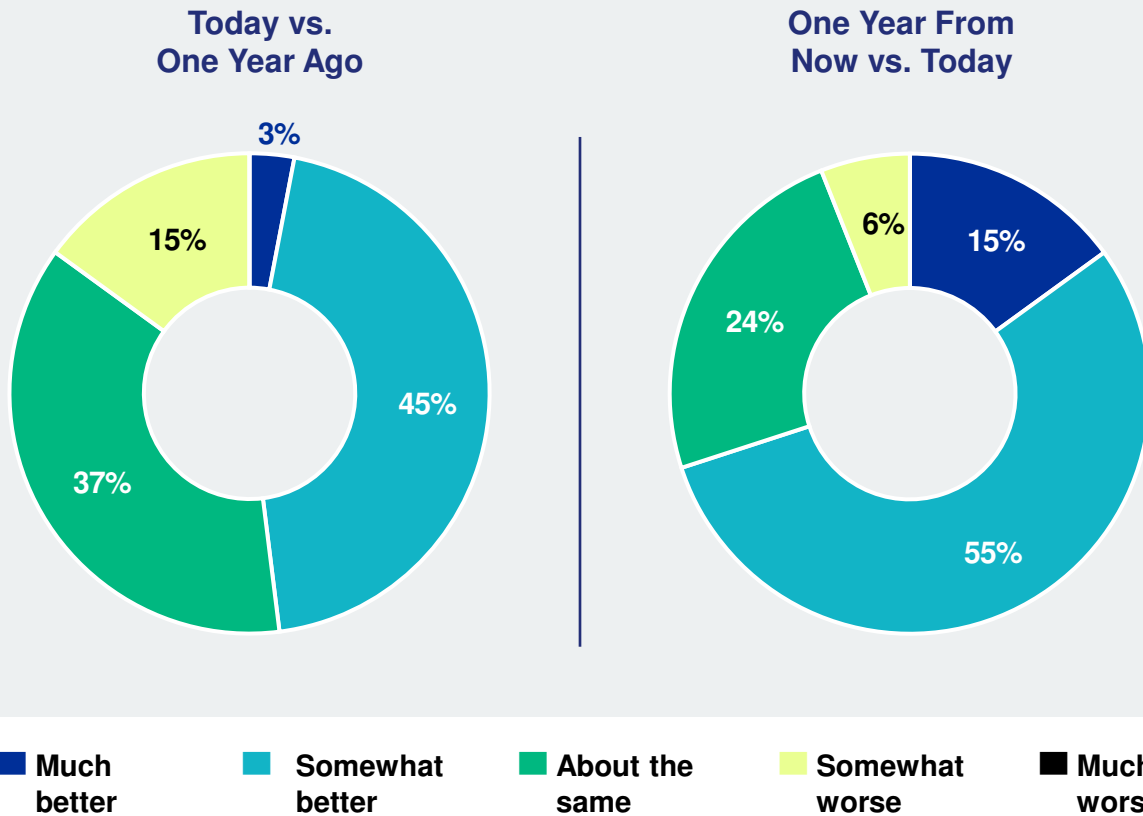
“At some point, we're going to need to find our office equilibrium point. Class A office with amenities fare well, but Class B struggles.”

“Subsector assets like student housing and data centers are unbelievably strong.”

General Market Conditions

% of respondents

Exhibit 2 – Perceptions on General Market Conditions



- Regarding sentiment on current market conditions, 15% believe it is a less favorable environment compared to one year ago, 48% feel it has improved, and 37% believe conditions remain the same
- These results are fairly close to the Q3 2023 RER Sentiment Survey where 54% of participants believed that general market conditions would be better in Q3 2024
- Looking towards the future, 70% of participants believe that a year from now will present more favorable market conditions

Asset Values

A significant 88% of Q3 survey participants expressed optimism that asset values will be higher (57%) or the same (31%) one year from now, indicating some semblance of expected stability. 76% of Q3 survey participants believe asset values are slightly lower (50%) or about the same (26%) today compared to a year ago.

“Peak to trough, asset pricing is down about 20% across the asset types. Office may be down even further, and on the flip side, data centers are probably untouched.”

“Buyers are underwriting 1-2 years of negative leverage for industrial assets, but we’re still able to get 4% lease bumps.”

“We would see more transactions in the market, but people are holding out because they don’t want to believe the losses.”

“Cap rates are elevated. Maybe it’s the new normal, but they’re elevated from where things were.”

“Interest rate pricing flows through to asset pricing, so we’re near the bottom. The Fed’s action on interest rates in the coming months will be a large determinant of real estate valuations.”

“Pricing is all over the board and has reset since the post-Covid boom. The magnitude of the reset depends on where the asset is in its life cycle and its financing structure.”

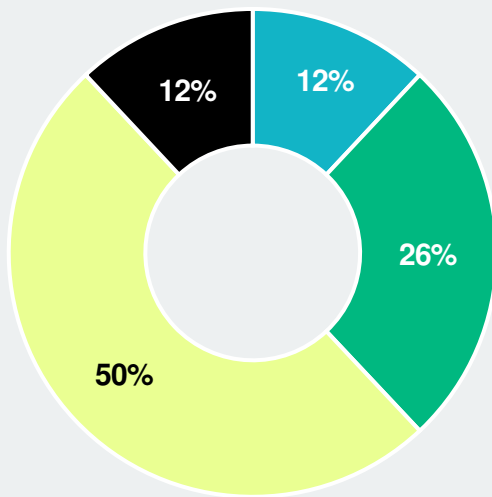
“Multifamily pricing is flat since last quarter, and we’re sort of bumping along the bottom. There’s still a big bid-ask spread, so we’re not seeing a lot of deals trade.”

Real Estate Asset Values

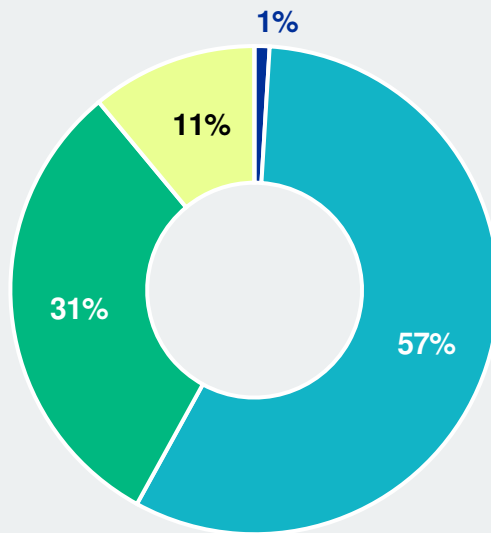
% of respondents

Exhibit 3 – Perceptions on Asset Values

**Today vs.
One Year Ago**



**One Year From
Now vs. Today**



■ **Much Higher** ■ **Somewhat higher** ■ **About the same** ■ **Somewhat lower** ■ **Much lower**

- Regarding sentiment on the state of current asset values, 62% believe they are lower than one year ago, 12% feel they are higher, and 26% believe asset values have remained the same compared to a year ago
- Compared to last year's Q3 Sentiment survey, when 20% of participants expected asset values would be higher now, these results indicate a greater-than-anticipated decline in asset values over the past year
- Looking towards the future, 58% of participants believe that a year from now will present more favorable asset values, 31% believe they will remain the same, and only 11% believe we will see lower asset values

Capital Markets

The real estate capital markets landscape remains challenging. However, 71% of respondents believe the availability of equity capital will improve in one year, while 60% said the availability of debt capital will improve in one year. 40% of participants said the availability of debt capital would be the same or worse in one year-- an increase from the 36% who voiced the same expectation in Q2 of this year.



Spreads are tightening on construction loans, but acquisition financing is more available. There is a lot of debt capital on the sidelines for high quality asset acquisitions.”



The dislocation in the markets has slowed the pace at which properties can be sold, meaning investors have less capital to recycle.”



There is debt financing out there, it’s just expensive. Private capital firms are trying to fill the stack, but it’s not going to replace the banking industry.”



Banks have pulled back, but insurance companies have a reasonable level of capital and pricing has been stable. For higher quality assets, there’s demand.”



In terms of equity capital raising, managers need to differentiate their products. Those with a thematic capital raise, like data centers, are doing well.”



Even if you’re tenured and have a track record, capital raising is tough. Investors will re-up with their existing managers who continue to perform, but it’s extremely tough if you’re a newer platform.

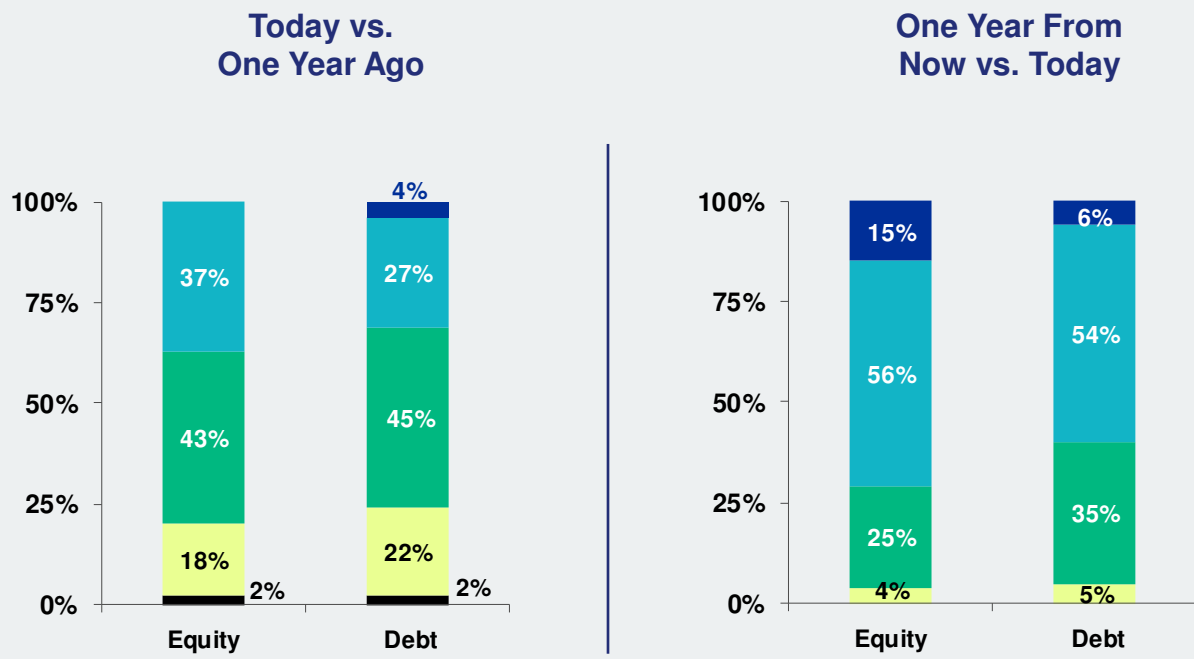


Capital for core products has seemed to dry up as most investors are looking for opportunistic or value-add returns.”

Availability of Capital

% of respondents

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



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

- Regarding sentiment on the availability of equity capital, 20% believe it is worse compared to one year ago, 37% feel it has improved, and 43% believe the availability of equity remains the same
- In terms of the availability of debt capital, 24% of participants believe it is worse compared to one year ago, 31% feel it has improved, and 45% believe the availability of debt remains the same
- Looking towards the future, 71% and 60% of participants believe that equity and debt availability respectively will be better one year from now, while only 4% and 5% of participants believe that equity and debt availability respectively 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

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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