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2017

Real Estate Market
Sentiment Survey

Executive Summary

Given the backdrop of historic political change-over in Washington, D.C. and record-setting stock market highs, rising interest rates continue to dominate concerns for U.S. commercial real estate executives in 2017, according to Seyfarth Shaw's 2nd annual survey of the commercial real estate market.

Rising interest rates continue to dominate concerns.

Seyfarth's 2017 Real Estate Market Sentiment Survey found that respondents are even more hawkish (98 percent) about interest rate increases this year compared to last year (90 percent). Of these "hawks," 77 percent expect multiple rate increases in 2017.

From interest rates to equity sources to the new Administration, Seyfarth Shaw's 2017 Survey examines the industry's current market sentiment:

Hopeful Sentiment Split: Respondents are evenly split regarding how many basis points the commercial real estate market can absorb before experiencing a material adverse impact: 51-100 Basis Points (33 percent) vs. 101-150 Basis Points (32 percent).

Fed Fears: With the Federal Reserve announcing its intention to raise interest rates multiple times in 2017, respondents again rank rising interest rates as their top concern for 2017. Notably, political change-over and tax policy rank fourth and fifth this year, overtaking maturing CMBS loans from the year before.

Terrorism Today: An overwhelming majority of respondents (83 percent) are not concerned that an act of domestic terrorism will impact their projects in 2017, compared to 70 percent last year. Of the remaining 17 percent, a majority will consider their decision to buy, sell, capitalize and lend in response to such an incident.

Equity Play: 36 percent of respondents indicate that Institutional Investors would be their primary source of equity. 21 percent report no engagement of third party equity.

Lingering CMBS Concerns: As in 2016, concern regarding the industry's ability to refinance record levels of maturing CMBS loans remains strong: 86 percent of respondents express concerns about the industry's ability to refinance the CMBS debt that is maturing in 2017, nearly matching 87 percent in 2016.

White House Impact: Last year, Republican candidate Donald Trump was the clear frontrunner among commercial real estate executives. Over two-thirds of respondents this year believe that the Trump Administration will have a positive impact on the 2017 commercial real estate market.

Red Tape Relief: Of the respondents who believe the Trump Administration will have a positive impact on CRE in 2017, Deregulation was top of mind with most respondents followed closely by Tax Reform. Notably, as the Administration poises to take on Dodd-Frank, many survey respondents single out its dismantling as a positive impact for the industry.

Brexit Bluster: More than half of respondents are not at all concerned about Brexit's impact on the U.S. market.

Q1: How many interest rate increases do you expect from the Federal Reserve in 2017?



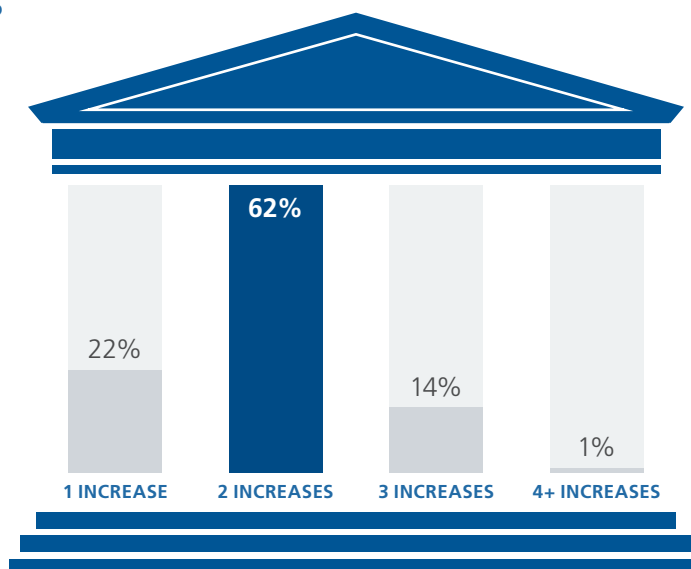
Hawkish: At least one rate increase



Dovish: No rate increase

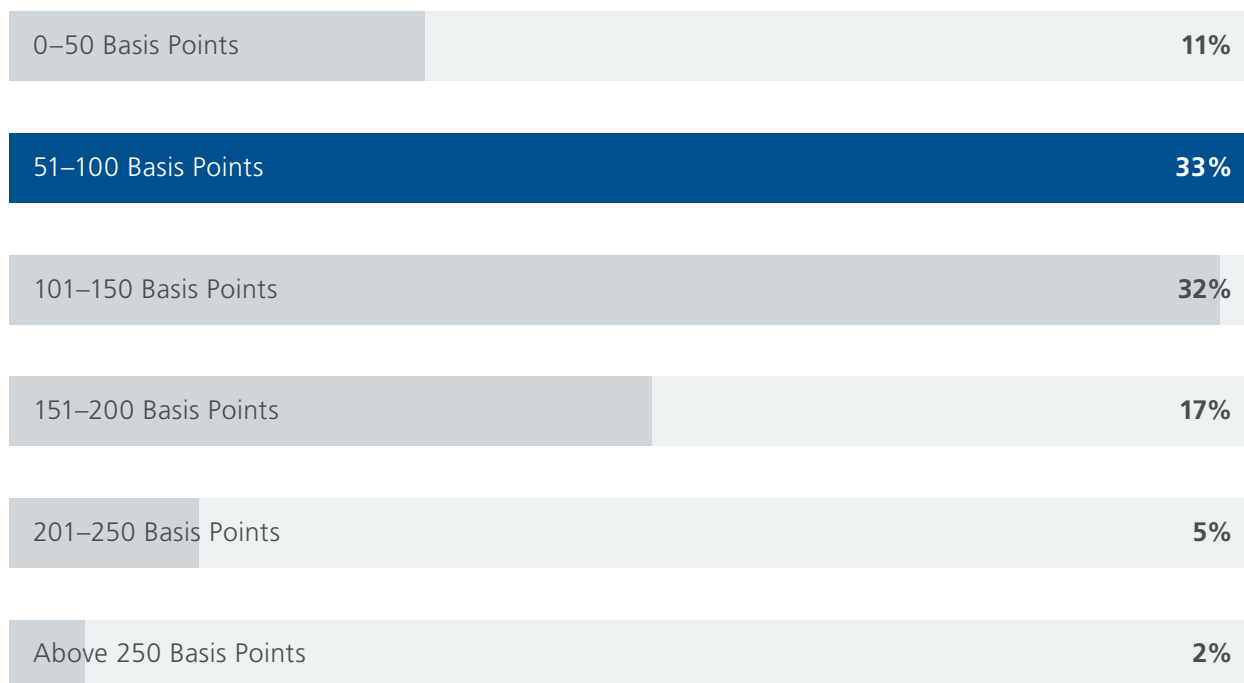
By an overwhelming majority, **98 percent** of respondents describe themselves as “Hawkish,” exemplifying the great confidence that executives believe the Federal Reserve will raise interest rates at least once in 2017.

Hopeful Hawks



The **majority of respondents (62 percent)** expect two rate increases in 2017 with another 15 percent expecting three or more.

Q2: In 2017, how much of a move up in interest rates can the CRE industry absorb before there is a material adverse impact on the CRE industry?

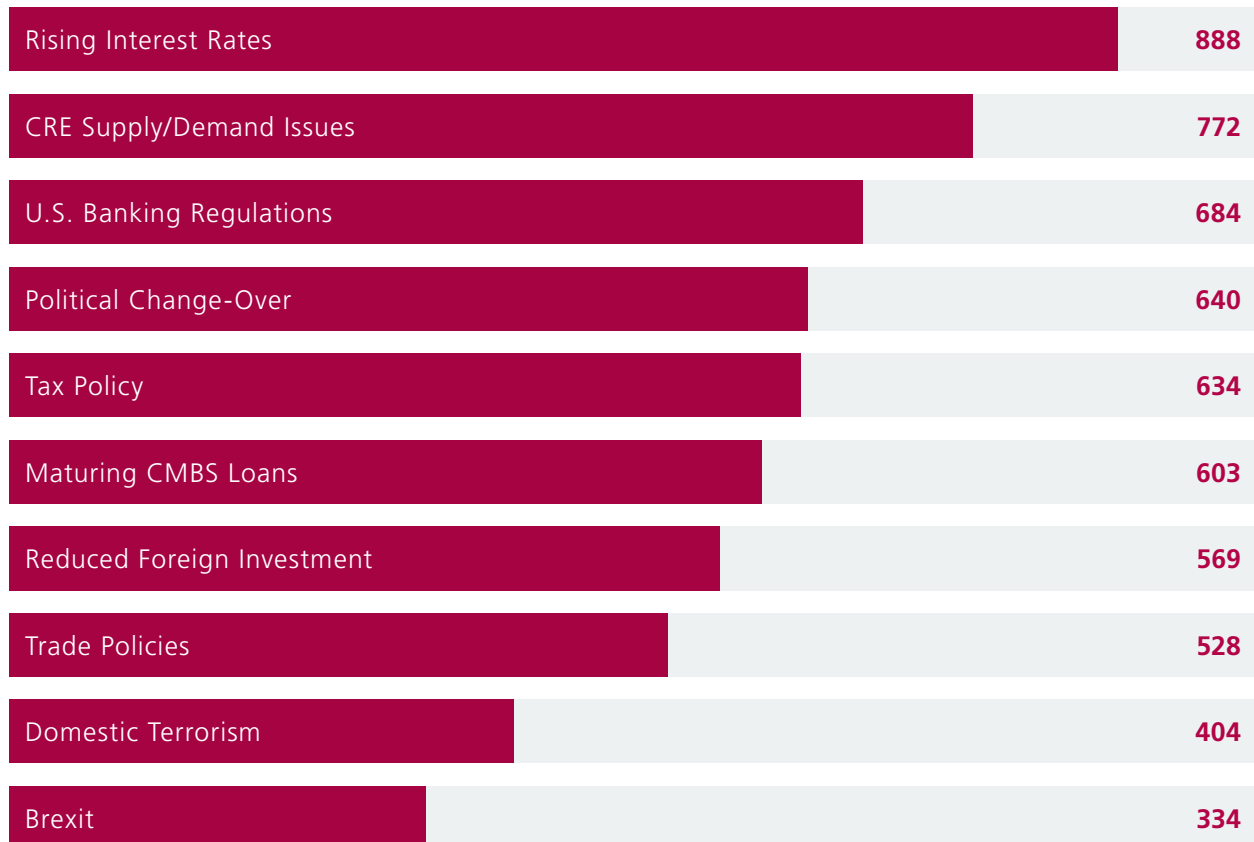


Respondents are evenly split regarding how many basis points the commercial real estate market can absorb before experiencing a material adverse impact: 51-100 Basis Points (33 percent) vs. 101-150 Basis Points (32 percent).

17 percent believe the industry could safely manage an increase of 151-200 basis points.

11 percent believe the industry can only absorb 0-50 basis points.

Q3: Which of the following represent the greatest concerns for the CRE industry in 2017?

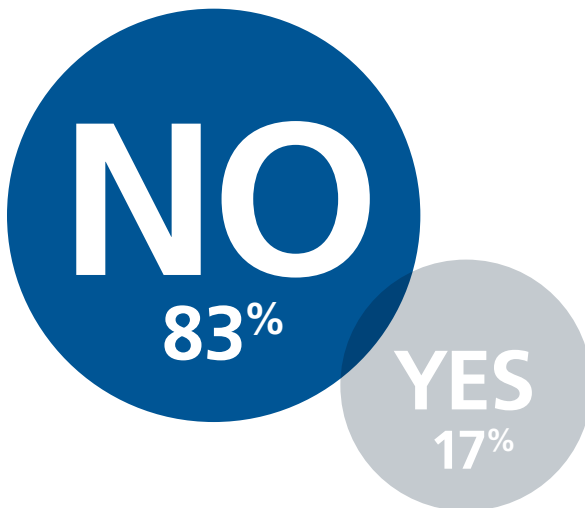


The three greatest concerns facing industry executives in 2017:

1. Rising interest rates (888)
2. CRE supply / demand issues (772)
3. U.S. banking regulations (684)

Notably, political change-over (640) and tax policy (634) rank fourth and fifth this year, overtaking maturing CMBS loans (603) from the previous year.

Q4: Are you concerned that an act of domestic terrorism will impact your 2017 projects?

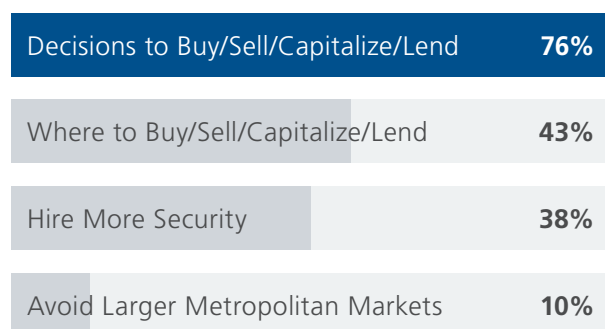


The **majority of respondents (83 percent)** are not concerned that an act of terrorism on U.S. soil would impact their projects in 2017. Concerns waned from last year, dropping from 30 percent to 17 percent.

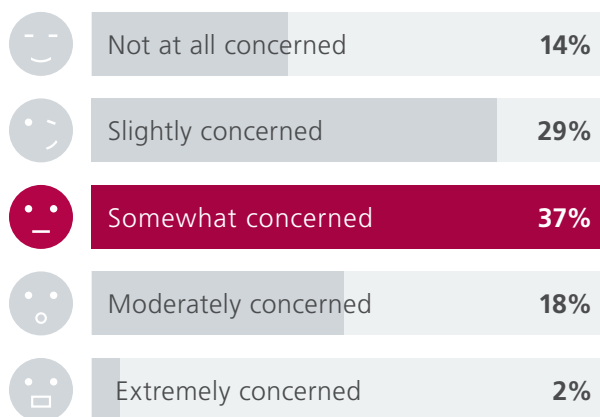
Q5: [If “yes” to No. 4] How would an act of domestic terrorism likely impact these projects? Check all that apply.

76 percent of respondents say such an incident would impact their decision to buy, sell, capitalize and lend moving forward.

43 percent of respondents report that an incident would impact where they would buy, sell, capitalize and lend. 38 percent say they would hire more security after an act of terrorism.



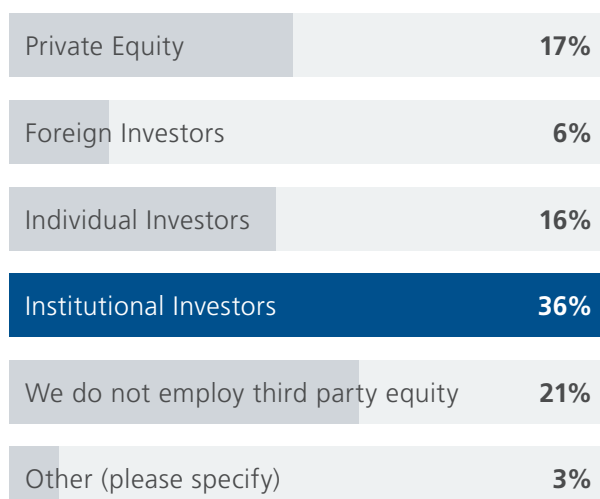
Q6: How concerned are you about the industry's continued ability to refinance record levels of maturing CMBS loans in 2017?



There is consistent concern among respondents over current CMBS loan levels: **86 percent** report concerns with **14 percent** reporting no concern at all.

Again, these concerns could be further intensified by the expectation of rising interest rates as predicted by respondents in Question No. 1.

Q7: In 2017, what will be your primary source of equity?

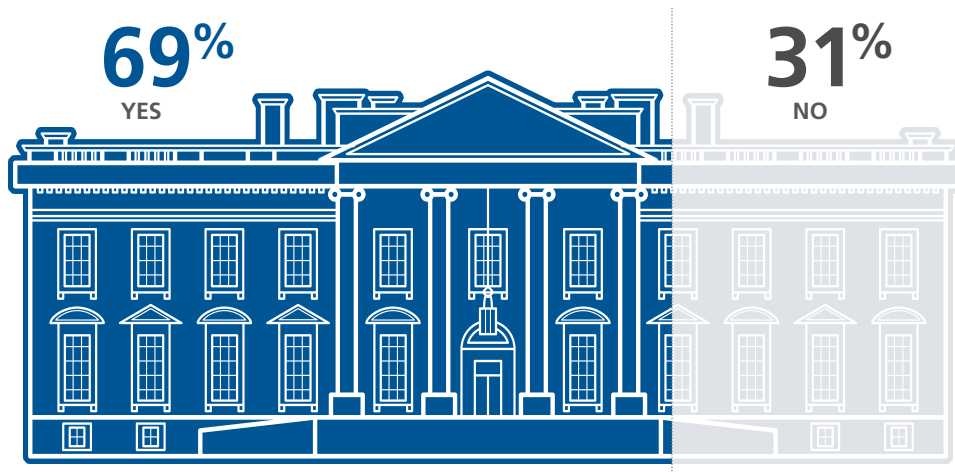


36 percent of respondents indicate that Institutional Investors will be their primary source of equity.

21 percent report no engagement of third party equity.

Q8: Do you think the new Trump Administration will have an overall positive impact on commercial real estate in 2017?

Over **two-thirds** of respondents believe that the Trump Administration will have a positive impact on the 2017 market.



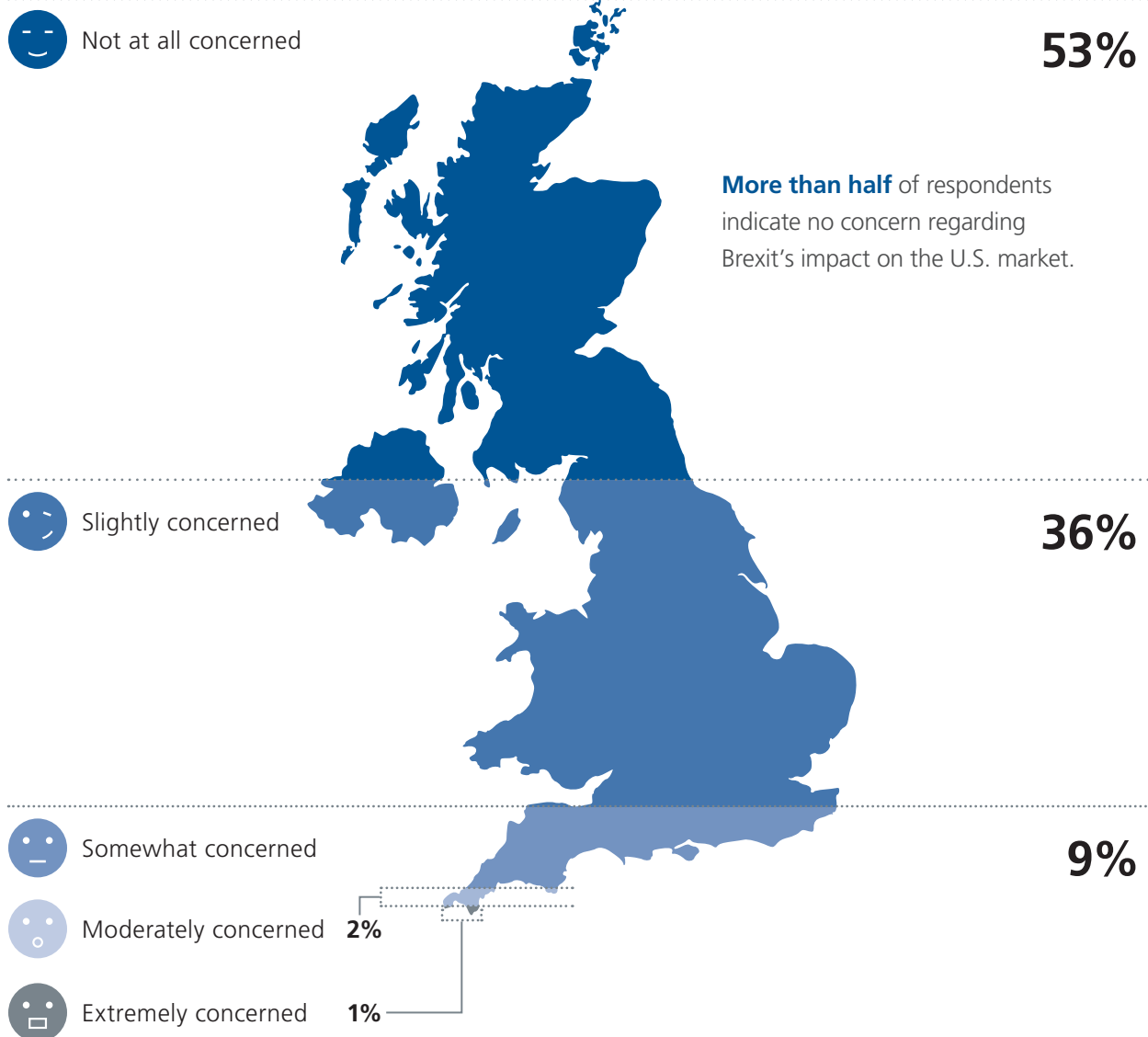
Q9: If yes to Q8, which will have the most overall positive effect?

| | |
|-------------------------------------|-----|
| Potential Dismantling of Dodd-Frank | 235 |
| Deregulation | 292 |
| Tax Reform | 290 |
| Infrastructure Investment | 209 |
| Trade Policies | 144 |

Overall Deregulation (292) and Tax Reform (290) are in a dead heat for the most positive impact according to respondents.

Respondents specifically single out the dismantling of Dodd-Frank (235) as a key positive impact from the new Administration.

Q10: Are you concerned that Brexit will significantly impact the U.S. commercial real estate market in 2017?



Methodology

In January 2017, Seyfarth Shaw surveyed real estate executives via email to gauge their top concerns for the coming year, which included owners, developers, investors, asset managers, brokers, lenders and consultants. 151 respondents took the survey.

- Question No. 3 used an inverse weighted ranking system to score each response. For example in No. 3, 1 = 10 points, 2 = 9 points, 3 = 8 points, 4 = 7 points, 5 = 6 points, 6 = 5 points, 7 = 4 points, 8 = 3 points, 9 = 2 points, 10=1 point.
- Question No. 9 used an inverse weighted ranking system to score each response. For example in No. 9, 1 = 5 points, 2 = 4 points, 3 = 3 points, 4 = 2 points, 5 = 1 point.
- Question No. 5 was only made available to those who answered “Yes” to Question No. 4.
- Question No. 9 was only made available to those who answered “Yes” to Question No. 8.
- Due to rounding, percentages used may exceed 100.
- Seyfarth Shaw represents the Trump Organization.

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Seyfarth Shaw has more than 900 attorneys and provides a broad range of legal services in the areas of real estate, labor and employment, employee benefits, litigation and corporate. With offices in Atlanta, Boston, Chicago, Houston, London, Los Angeles, Melbourne, New York, Sacramento, San Francisco, Shanghai, Sydney and Washington, D.C., Seyfarth’s clients include over 300 of the *Fortune* 500 companies and reflect virtually every industry and segment of the economy. A recognized leader in delivering value and innovation for legal services, Seyfarth’s acclaimed SeyfarthLean® client service model has earned numerous accolades from a variety of highly respected third parties, including industry associations, consulting firms and media. For more information, please visit www.seyfarth.com.

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Seyfarth’s Real Estate department is distinguished by its size, geographic footprint, and commitment to cutting-edge management techniques. As one of the largest real estate practices in the United States, Seyfarth’s Real Estate team of more than 140 attorneys successfully helped clients close more than \$33 billion in transactions in 2016. Independent organizations such as *Chambers USA*, *U.S. News & World Report*, and *The Legal 500* have recognized Seyfarth’s market leading position in real estate law and clients praise us for being “extremely responsive, very reliable and exceedingly knowledgeable.”



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