Seyfarth

2023 Real Estate Market Sentiment Survey

Seyfarth Shaw LLP

EXECUTIVE SUMMARY

Similar to the country as a whole, the commercial real estate (CRE) industry is grappling with a vastly higher interest rate environment coupled with the possibility of additional rate increases, inflation, and a potential recession. However, those headwinds have appeared to be taken in stride by the CRE community that, by and large, is focused on fundamentals and holds an optimistic view on 2023. Among many key topics covered in Seyfarth's 8th Annual Real Estate Market Sentiment Survey, CRE executives weigh in on their top concerns, investment priorities, and key catalysts for change.

Seyfarth's 2023 Survey examines the industry's current market sentiment as it navigates an uncertain economic outlook:

Persistent Positivity: Despite the highest interest rate environment since 2007 and a looming recession, more than two-thirds (69 percent) of the CRE industry have a positive outlook for 2023. Though down from 84 percent in 2022, this resilient optimism flows in part from better than expected economic growth during the fourth quarter of last year and a continued decline in the rate of inflation. It too may reflect a move to invest in distressed assets.

Focus on Fundamentals: CRE performance is driven by and tied to fundamentals. Interest rates, a potential recession, and inflation remain the top concerns for CRE executives in 2023. While the survey consensus follows the Fed guidance on increasing interest rates, respondents are mixed on whether we are in a recession or headed for one—and, if so, for how long.

Distressed Dynamics: Adversity can lead to prosperity for those poised and able to capitalize on the moment. 48 percent of all respondents plan to invest in distressed assets in 2023, while nearly 60 percent of those respondents who view 2023 as a year of opportunity also plan to invest in distressed assets. For those with money to spend, the decrease in debt availability and rise in financing costs may lead to falling asset values in the market and could explain why, despite these challenges, they see 2023 as a year of opportunity.

Pivotal Policies: Lowering interest rates reigns supreme in the eyes of respondents with more than 70 percent designating this as the most effective way the government can support CRE. While 60 percent of respondents identify low state taxes as the greatest driver of corporate relocations in 2023, social issues such as reproductive rights and ESG were immaterial when compared to economic concerns.

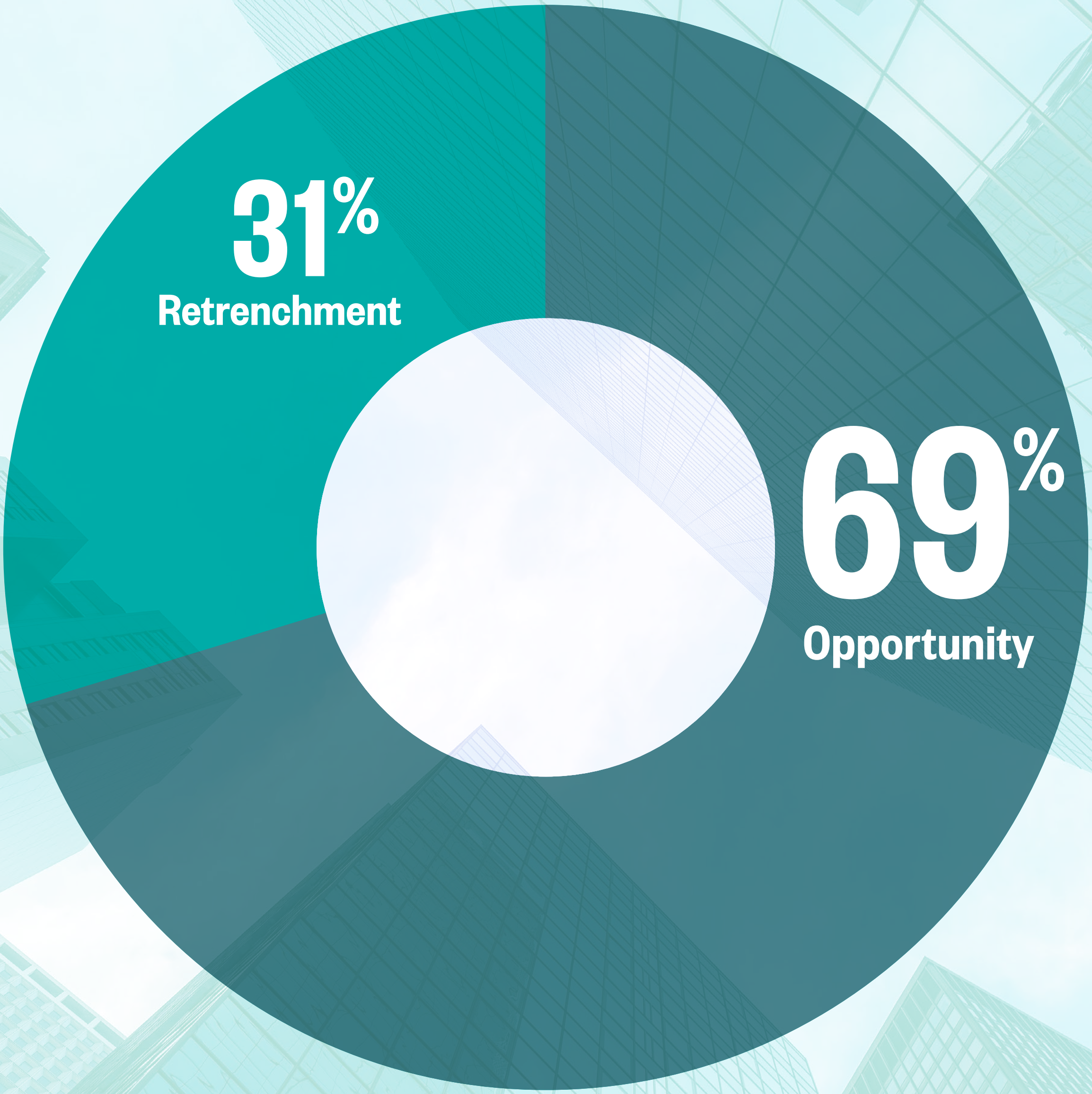
Workplace Woes: Work-from-home/hybrid models are now table stakes to remain competitive with top talent, though nearly two-thirds (62 percent) of CRE executives report a corresponding decline in company culture as a result. Perhaps in an effort to stem further declines, 85 percent of respondents, who are disproportionately owners and senior executives, plan to be in the office 2-5 days per week in 2023. It is unclear whether concerns over culture will trump retention and recruiting and drive the great return to work many CRE executives see as critical to stabilizing assets.

Kings of Capital: With the capital gap left by many lenders and institutional investors, CRE executives expect private equity to become the leading source of equity in 2023.

Urban Upheld: Nearly three-quarters of respondents anticipate a continued preference for urban market investments. These numbers are consistent with respondents' views in 2022.

Preferred Properties: Traditional assets are the most attractive asset classes for investments in 2023. Multifamily and industrial are the preferred darlings among core property types, whereas senior housing and life sciences are the most alluring alternative assets. Single-family rentals, which were among the top two investment interests last year, fell to the bottom.

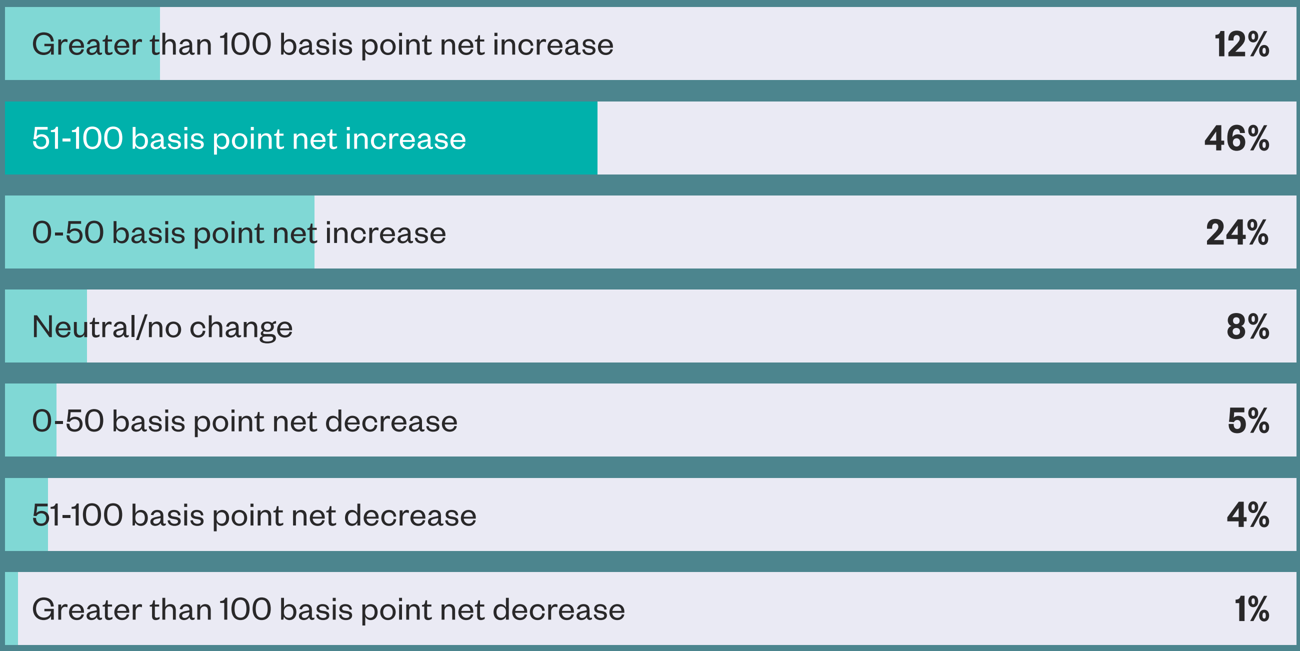
Q1: Do you foresee 2023 as a year of opportunity or retrenchment for your company?



Despite a signal toward continued rate hikes, the uncertainty of a recession, material office vacancy, retail bankruptcies, and multiple efforts to adopt some form of residential rent control, 69 percent of respondents believe that 2023 will be a year of opportunity for their companies. This sentiment is down from last year when 84 percent of CRE executives believed that 2022 would be a year of opportunity.

As previously mentioned on page 2, there appears to be a positive correlation with opportunity and an intent to invest in distressed assets.

Q2: Over the course of 2022 the Federal Reserve raised interest rates by 425 basis points. How much do you anticipate the Fed will increase or decrease rates during the course of 2023?



The survey revealed an overwhelming consensus (82 percent) that the Fed will continue to boost interest rates in 2023 (as of February, the Fed already made a quarter-point hike to rates). 58 percent of respondents expect a net increase of more than 50 basis points.

10 percent of respondents anticipate a net decrease in interest rates in 2023.

Q3: Do you believe there will be an economic recession in the US in 2023?

The US economy is already in a recession	37%
The recession will begin in the first half of 2023	34%
The recession will begin in the second half of 2023	17%
There will not be an economic recession in 2023	12%

88 percent of respondents believe that the US is already in or will experience a recession in 2023.

With the CRE industry disproportionately impacted by higher interest rates, higher office vacancy rates, higher construction costs, and a nascent lending environment, it's not surprising that 37 percent of these respondents felt the US was already experiencing a recession. While the larger economy may have avoided a recession, the real estate sector is underperforming the balance of the economy—which many CRE participants identify as a recession.

Q4: How long do you think the recession will last?

3-6 months	15%
6-12 months	49%
More than 12 months	24%
N/A	13%

64 percent of CRE executives predict a recession will last less than 12 months, which would be shorter and shallower than the Great Financial Crisis of 2008 that extended for 18 months.

Q5: Do you anticipate investing in distressed assets in 2023?

Yes	48%
No	52%

There was a near 50/50 split among respondents when asked if they plan to invest in distressed assets in 2023.

Q6: What will be your primary source of equity in 2023?

Private Equity	35%
Institutional Investors	27%
We do not employ third party equity	26%
Other	8%
Foreign Investors	3%

35 percent of respondents expect the role of private equity in CRE to expand materially in 2023, opportunistically filling the capital gap left by many institutional investors and lenders being on the sidelines.

26 percent of respondents do not plan to employ third party equity.

Q7: Which of the following represent the greatest concerns for the CRE industry in 2023?

Top three greatest concerns in 2023:

1. Rising interest rates
2. Inflation and rising costs
3. Economic recession
4. Scarcity of debt financing
5. Layoffs and rising unemployment
6. Supply chain challenges
7. Climate change/severe weather
8. Omnicron/continued COVID-19 variants
9. Cybersecurity threats
10. Geopolitical instability/war in Ukraine

Fundamentals are key for CRE executives in 2023, with rising interest rates taking the number one spot for concern amidst the highest rate environment since 2017. Falling shortly behind the top three, respondents also pointed to scarcity of debt financing as top of mind.

Supply chain fell from a top three concern in 2022 to the bottom half of concerns this year.

See methodology on page 13 for how this question was scored.

Q8: Which real estate sector presents the greatest opportunity for your investment strategy in 2023?

Multifamily	31%
Industrial	24%
Shopping center retail	13%
Hotels/resorts	6%
Senior housing	5%
Life sciences	5%
Data centers	3%
Healthcare facilities	3%
Suburban office	3%
Student housing	2%
Self-storage	2%
Single family rental	2%

Multifamily (31 percent) and industrial (24 percent) are the most attractive asset classes for investments in 2023. Multifamily investment is being spurred by the shortage of affordable housing and the availability of financing from government sources such as Fannie Mae and Freddie Mac. E-commerce continues to drive the need for industrial assets.

Among alternative asset classes, CRE executives are most focused on senior housing and life sciences. Single family rentals, which were among the top two investment opportunities in 2022, fell to the bottom.

Q9: Will your company shift its investment sights from urban to suburban markets in 2023?

Yes	**26%**
No	**74%**

74 percent of respondents prefer urban market investments in 2023, which is consistent with 2022 results.

Q10: Has the migration to work-from-home/hybrid models adversely impacted your company?

Bottom line

Yes	**33%**
No	**67%**

Employee loyalty

Yes	**35%**
No	**65%**

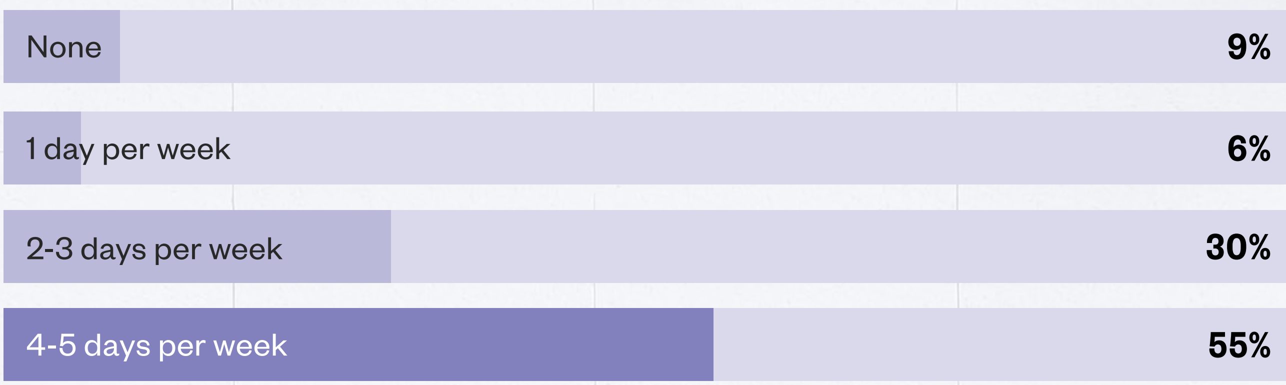
Company culture

Yes	**62%**
No	**38%**

Two-thirds (67 percent) of respondents say their bottom line has held strong despite the shift to remote work. This sentiment decreased slightly from last year when 75 percent of respondents felt similarly. 35 percent of CRE executives say employee loyalty has suffered, similar to 2022 results.

62 percent of respondents state that company culture has eroded because of the shift, reflecting a slightly more positive outlook than in 2022.

Q11: How often do you expect to be in your company's office space on a weekly basis?



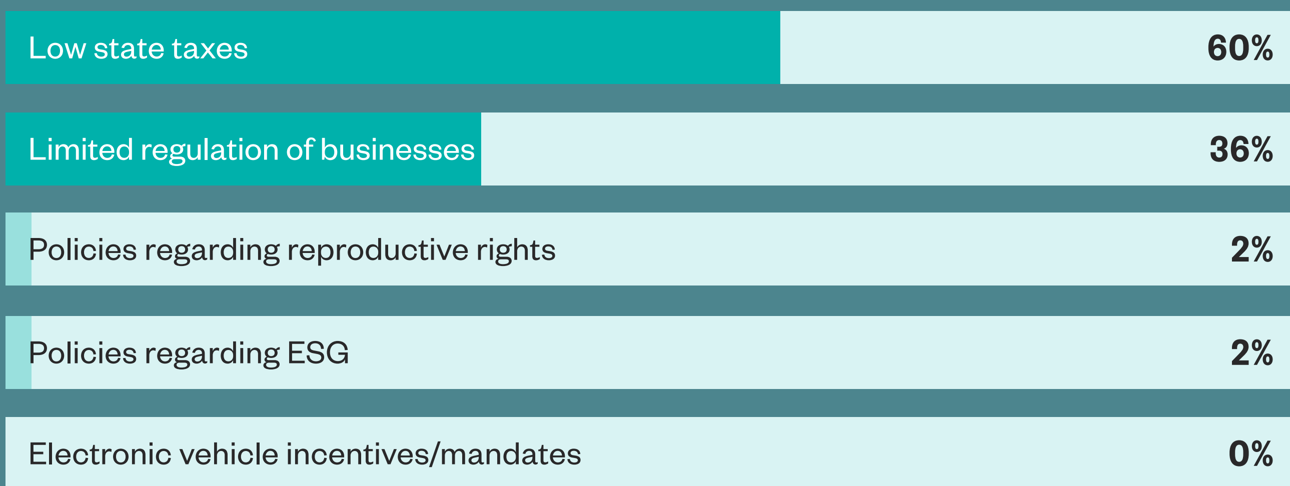
55 percent of CRE executives anticipate being in the office 4-5 days per week this year. Only 15 percent expect to be in one day per week or not at all.

Q12: Which government policy would spur the biggest increase in real estate development?

70 percent of CRE executives believe that lowering interest rates will be key to driving more real estate development.

Tax credits and incentives for the development of specific property types was a distant second (18 percent), and tax credits and incentives to redevelop brownfield sites failed to move the needle for respondents.

Q13: Which state government policy do you think will be the greatest driver of corporate office relocations in 2023?



Low state taxes (60 percent) and limited regulation of businesses (36 percent) are viewed by CRE executives as the greatest driver of corporate office relocations in 2023. Social factors such as reproductive rights and ESG were hardly considered.

Methodology

In January 2023, Seyfarth 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. 145 respondents took the survey.

Question No. 7 used an inverse weighted ranking system to score each response. For example, 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.

About Seyfarth

With more than 900 lawyers across 17 offices, Seyfarth Shaw LLP provides advisory, litigation and transactional legal services to clients worldwide.

About Seyfarth's Real Estate Department

Seyfarth is home to a world-class real estate team that serves sophisticated clients across a number of industries. Recognized as one of the largest real estate practices in the US, Seyfarth has built an integrated team that serves local, regional, and national clients on the acquisition, financing, development, leasing, restructuring, and disposition of noteworthy real estate assets and portfolios. This experience extends across a comprehensive array of asset classes, including office, industrial, multifamily, retail, health care, and data center projects. Seyfarth leverages its size and depth to partner with clients and to invest in material enhancements in how commercial real estate law is practiced.

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