Seyfarth

2020 Real Estate Market Sentiment Survey

Seyfarth Shaw LLP

Executive Summary

As we begin a new decade, 2020 is poised to be a pivotal year as the commercial real estate (CRE) industry searches for new market opportunities amid a more dovish Federal Reserve and a combination of shifting macro and micro variables. While opportunity zones and the cannabis space offer new avenues for investment, executives cite the elusive end of the current growth cycle, a potential recession, and the results of the pending Presidential election as their top concerns this year, according to Seyfarth's 5th annual Real Estate Market Sentiment Survey.

From a Presidential election to opportunity zones to rent control legislation, Seyfarth's 2020 Survey examines the industry's current market sentiment:

Ambiguity Abounds: Survey respondents report general uncertainty regarding the Federal Reserve's actions on interest rates in the coming year. One reason for the confusion could be the volatility consistently present in many influential market indicators. A potential pandemic, an intense domestic Presidential election, and the fear of the end of the current growth cycle all weigh heavily on the industry.

Presidential Promises: President Trump was considered to be the candidate most favorable to the industry in the firm's 2016 survey (33 percent) when he promised deregulation, job growth, and tax cuts. In this year's survey, respondents displayed their approval, rewarding the President with the lead position once again (62 percent). Industry-favorable legislation, such as the Tax Cuts and Jobs Act, and a strong economy have sustained prosperity for the CRE industry. Representing the opposition in second place in the 2020 survey (31 percent) is former New York Mayor Mike Bloomberg.

Concerns Mounting: The greatest concern for the CRE industry this year is the end of the current growth cycle, followed closely by a potential recession, and then the 2020 Presidential election results. The sustained growth economy for more than a decade has provided a stable environment for the real estate market. Predictions of an economic demise have been reverberating the last several years, but this year the forecast has garnered greater support among survey respondents. The prospect of fundamental change to the CRE-favorable policies of the current administration creates uncertainty, which can be anathema to real estate professionals.

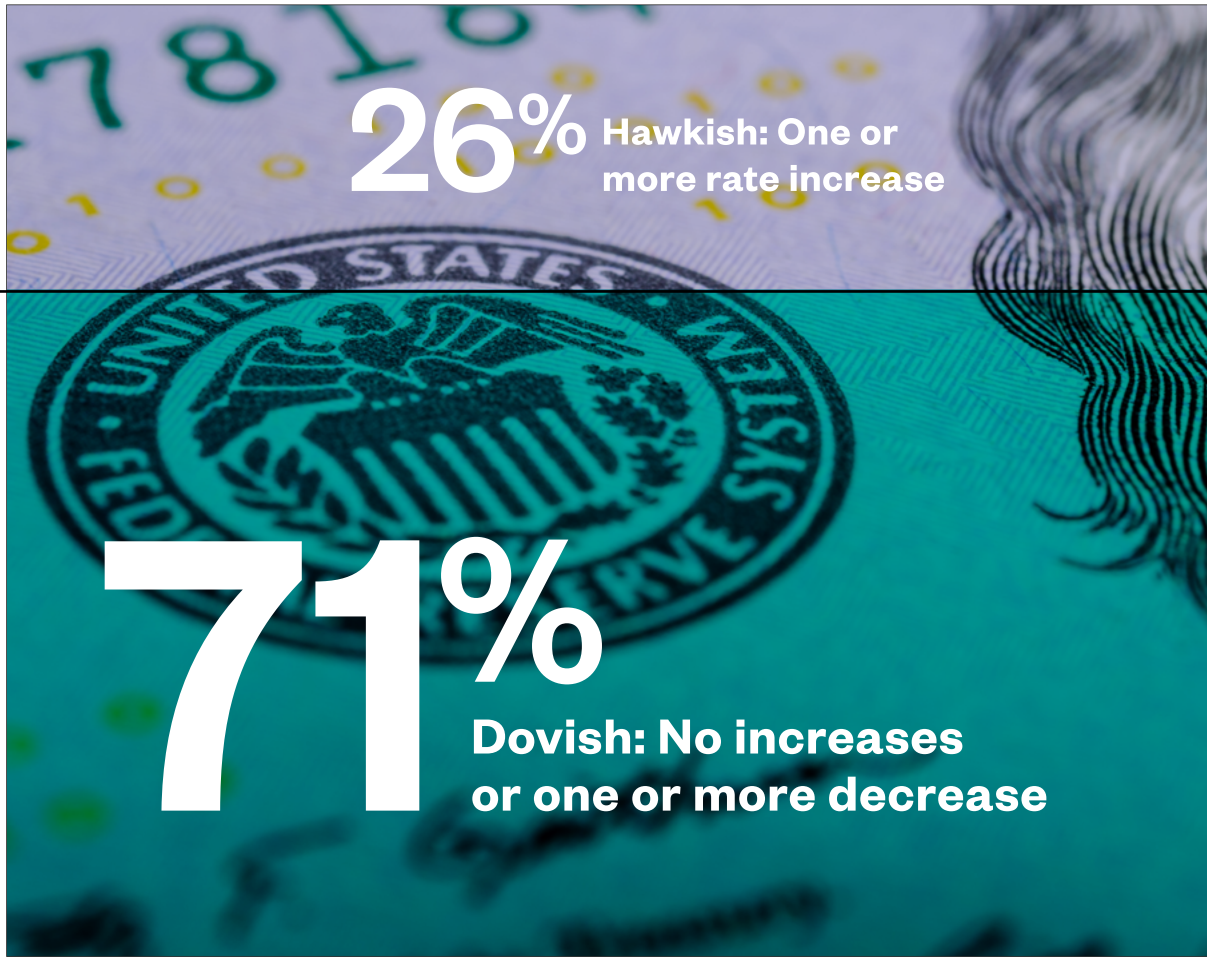
When Opportunity Zones Knock: A key accomplishment touted by President Trump in his recent State of the Union address, opportunity zones are still uncertain ground in the eyes of most survey respondents (77 percent). Nevertheless, 31 percent of respondents plan to participate in the federal program as either a sponsor or investor in 2020. One big reason for the increased enthusiasm is the finalization of the governing regulations in December, 2019.

Rent this Way: Location. Location. Location. As rent control legislation continues to pass city and state legislatures, CRE executives are weighing their options to invest in multifamily markets subject to this unwelcome oversight. The geographic location of survey respondents seems to explain the split sentiment, with those in rent-controlled environments voicing the most concern. When the legislation arrives in their backyard, other professionals' attitudes may change.

Marijuana Momentum?: Although cannabis legalization is sweeping the country, 79 percent of respondents this year say they will not engage in any CRE transaction or investment involving marijuana or hemp/CBD in 2020. There is no doubt that the federal view toward the Schedule 1 drug gives pause to many industry executives. Nevertheless, a notable quarter of respondents (25 percent) indicate that cannabis issues are surfacing more often in their transactions.

Weather Watch: The news of global events as a result of climate change has not influenced the feelings of most working in the real estate space. The wildfires in California and Australia, and other news of weather-related disasters around the globe are not surfacing materially in the feedback from the ultimate decision makers on real estate investment. Over two-thirds of respondents (67 percent) do not factor climate risk costs in their deals.

Q1: How many interest rate increases/decreases do you expect from the Federal Reserve in 2020?



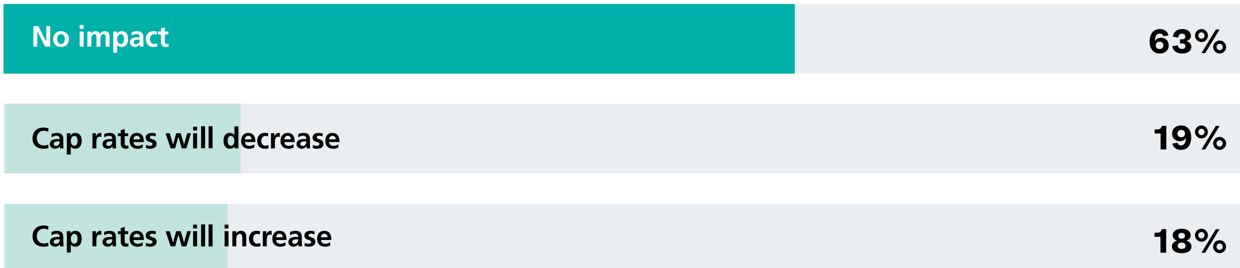
Last year, over 90 percent of respondents believed the Federal Reserve would raise interest rates at least once. Only 26 percent feel the same way in 2020. Twenty-five percent say the Reserve will decrease rates at least once this year.

Most respondents (46 percent) believe the Federal Reserve will not act in either direction when it comes to interest rates in 2020.

Nineteen percent of respondents expect one decrease, while 16 percent expect one increase. Six percent predict 2020 will be a combination of both increases and decreases.

3 increases	1%
2 increases	9%
1 increase	16%
No increase or decrease	46%
1 decrease	19%
2 decreases	5%
3 decreases	1%
Both increases and decreases	6%

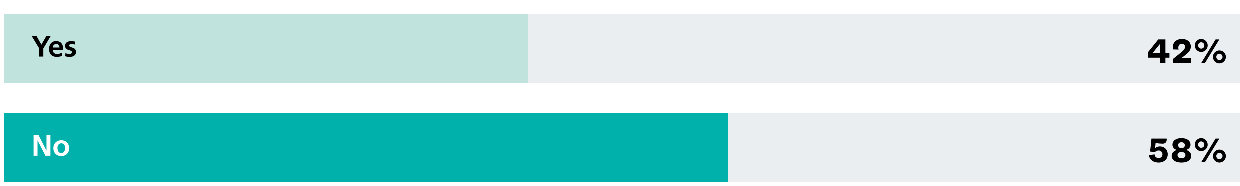
Q2: In 2020, how will adjustments/stability in short term interest rates impact the commercial real estate (CRE) industry?



Nearly two-thirds of respondents (63 percent) believe the adjustment/stability in short term interest rates will have no impact on the industry.

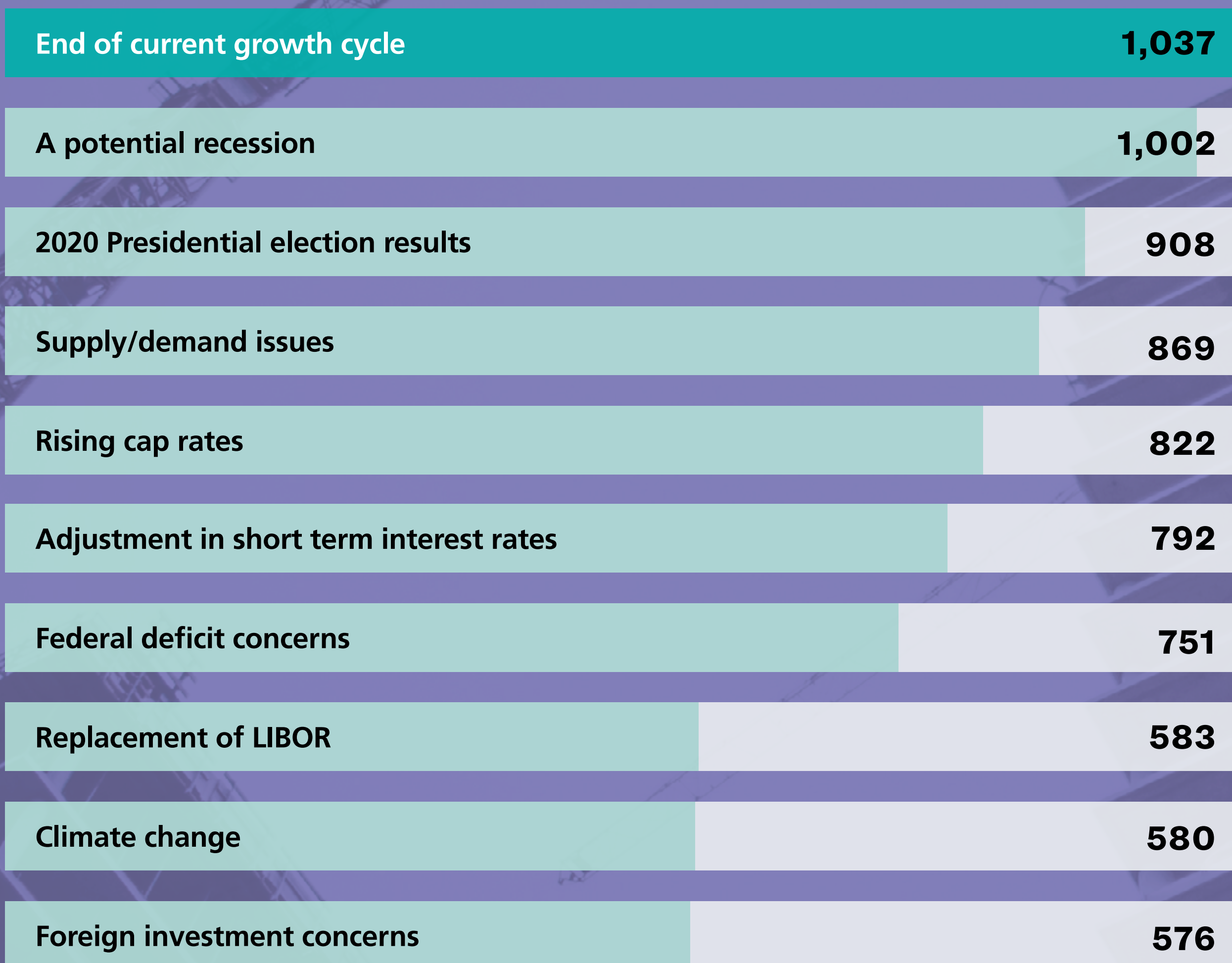
Other Survey respondents are split on whether cap rates will decrease (19 percent) or increase (18 percent).

Q3: In 2020, do you anticipate more aggressive (e.g., more flexible) underwriting?



Consistent with the sentiment expressed in Questions 1 and 2, 58 percent of respondents do not anticipate more aggressive underwriting in 2020. Forty-two percent of respondents predict a more aggressive landscape this year with low interest rates.

Q4: Which of the following represent the greatest concerns for the CRE industry in 2020?



The three greatest concerns facing industry executives in 2020 are:

1. End of current growth cycle (1,037)
2. A potential recession (1,002)
3. 2020 Presidential election results (908)

Respondents continue to express concern about a market slowdown as evidenced by their top two reported fears in 2020. The end of the current growth cycle and a potential recession each move up one spot compared to last year.

This year's race for the White House is also top of mind with respondents, securing the third spot.

In 2019, rising interest rates earned the top spot. Given the sentiment for stability in rates in 2020, the adjustment in short term interest rates places sixth this year. Similarly, rising cap rates fell to the middle of the pack.

Q5: Of the following 2020 presidential candidates, who represents the most favorable for the real estate industry?

Nearly two-thirds of respondents (62 percent) believe the incumbent President, Donald Trump, is the best candidate for the industry. In the firm's inaugural survey back in 2016, candidate Trump also secured the top spot (33 percent).

Notably, the other New York businessman in the field, Michael Bloomberg, receives the highest ranking (31 percent) among Democratic candidates in the field.

Q6: With the continued expansion of cannabis legalization across the United States, do you plan on engaging in any CRE transaction or investment involving the cannabis industry (including hemp/CBD) in 2020?

Similar to last year, survey respondents are still trying to understand the evolution of the cannabis industry. Close to 80 percent of respondents this year do not anticipate engaging in any CRE transaction or investment involving marijuana or hemp/CBD in 2020.

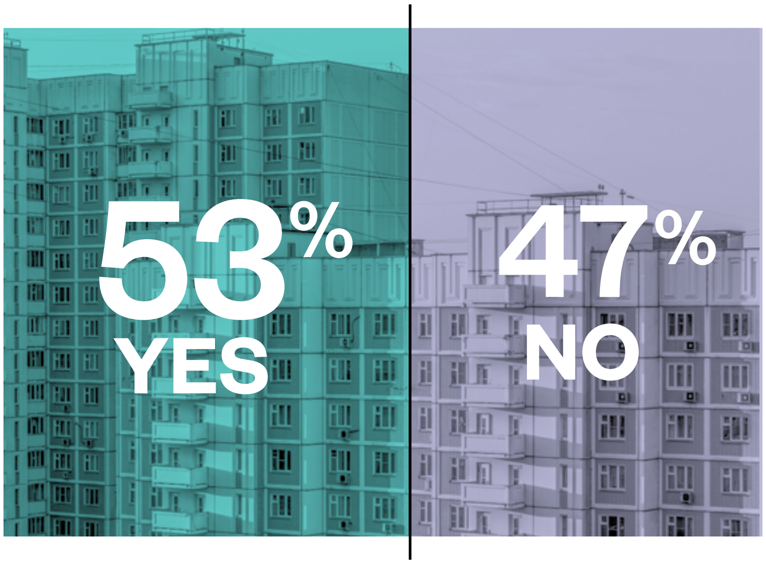
In 2019, 85 percent of respondents said "No" to the new investment opportunity. Notably, 70 percent of respondents last year said that a CRE transaction in the cannabis industry would be in play for them in 2-5 years.

Q7: In the normal course of your operations, did cannabis-related issues create complications for you as an owner, landlord or lender in 2019?

A healthy majority of respondents (75 percent) report no cannabis-related complications for their business operations in 2019. However, a quarter of respondents (25 percent) indicate the issues are surfacing more often as states start to legalize the drug.

Twenty percent of respondents in 2019 reported already having their hands in the marijuana business.

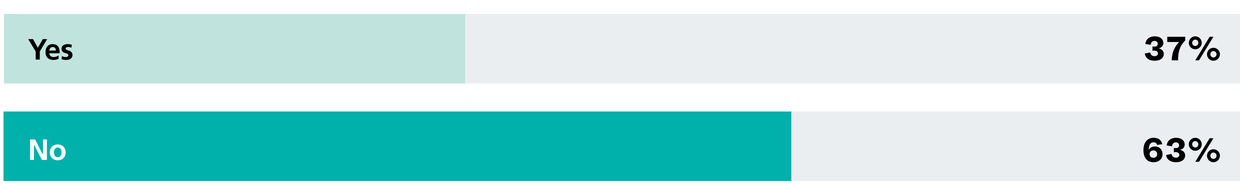
Q8: As rent control makes its way through city and state legislatures, are you deemphasizing investment and lending in multifamily markets subject to rent control?



The industry is divided when it comes to rent control. Fifty-three percent of respondents are deemphasizing investment and lending in those multifamily markets impacted by rent control. Forty-seven percent of respondents say the trending legislation has no impact on their investment strategy.

Geographic location might be the main factor in the sentiment split.

Q9: Do you plan to purchase, develop, utilize (as a tenant/user) or lend in coworking and/or coliving (e.g., in multifamily and hospitality) spaces in 2020?



Most survey respondents (63 percent) do not anticipate allocating resources to coworking and/or coliving spaces in 2020.

Seventy percent of survey respondents in 2019 felt the same way.

Q10: Did you participate in an Opportunity Zone investment in 2019, whether as a sponsor or investor?

No	77%
Yes, as a sponsor	13%
Yes, as an investor	10%

Seventy-seven percent of survey respondents did not participate in an opportunity zone investment in 2019. Those respondents who participated were split when it came to their involvement: 3 percent as sponsor; 10 percent as an investor.

In 2019, 32 percent of survey respondents reported their plans to utilize the opportunity zone program. The unresolved status of governing regulations for most of 2019 might have caused uncertainty among some in the industry.

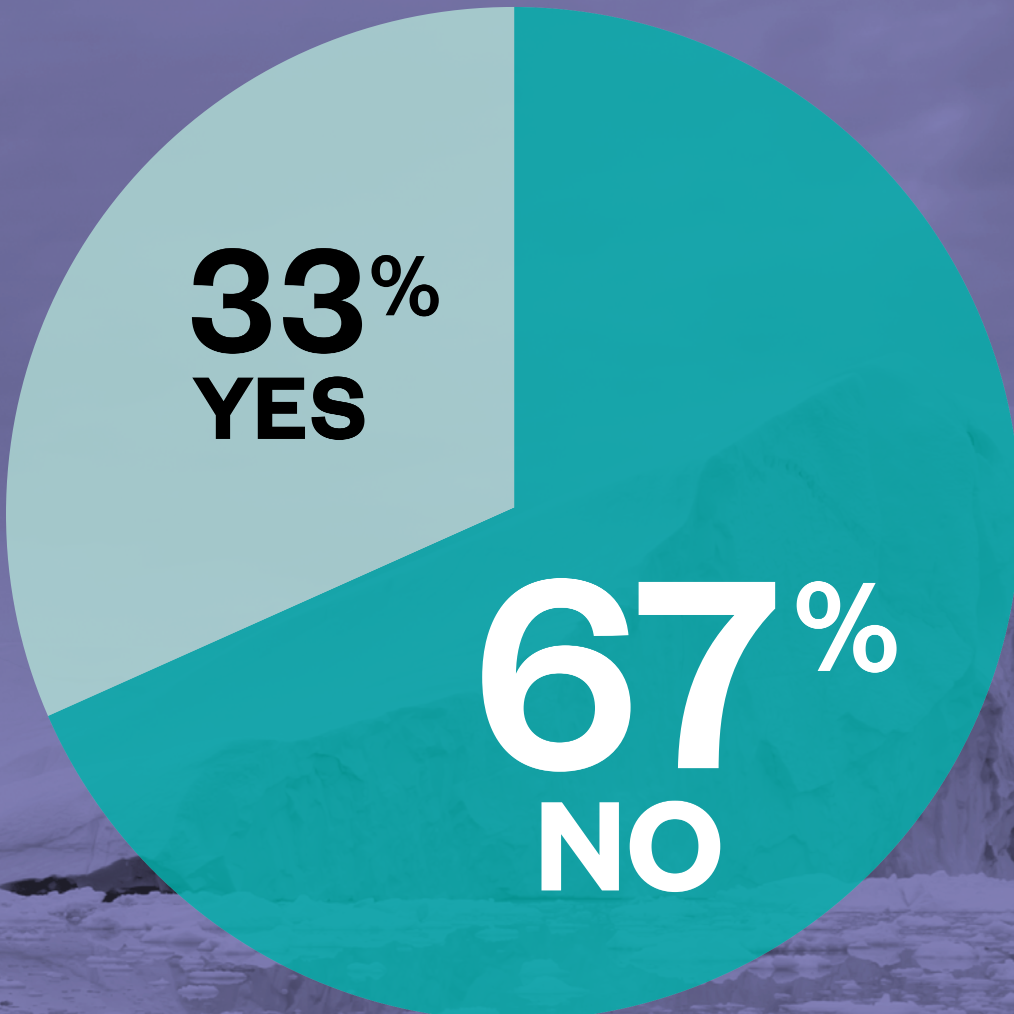
Q11: Do you plan on pursuing new Opportunity Zone projects in 2020, whether as a sponsor or investor?

No	69%
Yes, as an investor	16%
Yes, as a sponsor	15%

Similar to their reported participation in 2019, survey respondents are easing their way into opportunity zones in 2020. Thirty-one percent indicate they will participate in the federal program in 2020.

Those who plan to participate intend to do so equally as a sponsor (15 percent) and as an investor (16 percent).

Q12: Do you calculate costs associated with climate risk when underwriting a CRE project?



Although climate change is a hot topic at the water cooler, most of the CRE industry does not calculate its costs when underwriting a CRE project.

Over two-thirds of respondents (67 percent) do not focus on the potential risk.

Q13: Has the rise of ride-sharing services impacted your analysis and/or development of properties?

As consistently reported in the 2018 (43 percent) and 2019 (41 percent) survey results, 41 percent of respondents in 2020 believe the rise of ride-sharing will impact their property analysis/ development.

Ride-sharing remains a steady, if not significant, factor in the industry, and clearly is top of mind for those who can reap the benefits of what has become an amenity in many projects.

Q14: What will be your primary source of equity in 2020?

Individual investors	28%
Institutional investors	27%
We do not employ third party equity	20%
Private equity	18%
Foreign investors	4%
Other	3%

This year, most respondents plan to use either individual investors (28 percent) or institutional investors (27 percent) as their primary source of equity in 2020. The utilization of opportunity zones may have been a factor in the increase in individual investors this year compared to 2019 (17 percent).

Similar to last year (22 percent), 20 percent of respondents do not plan to employ third party equity.

Eighteen percent report private equity will be their primary source of equity.

Methodology

- In January 2020, 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. 200 respondents took the survey.
- Question No. 4 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.
- Due to rounding, percentages used may not equal 100.

About Seyfarth

With more than 900 lawyers across 16 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 experts in each of the largest money center markets across the country. The team leverages its size and depth to partner with clients and to invest in material enhancements in how commercial real estate law is practiced. Seyfarth has built an integrated national team that serves clients on a local, regional or national basis. Clients benefit from the group's depth and leading edge expertise across all dimensions of real estate. The team regularly serve clients on the acquisition, financing, development, leasing, restructuring, and disposition of noteworthy real estate assets and portfolios. Seyfarth's real estate team handles matters across a comprehensive array of asset classes, including office, industrial, multi-family, retail, healthcare and data center projects.