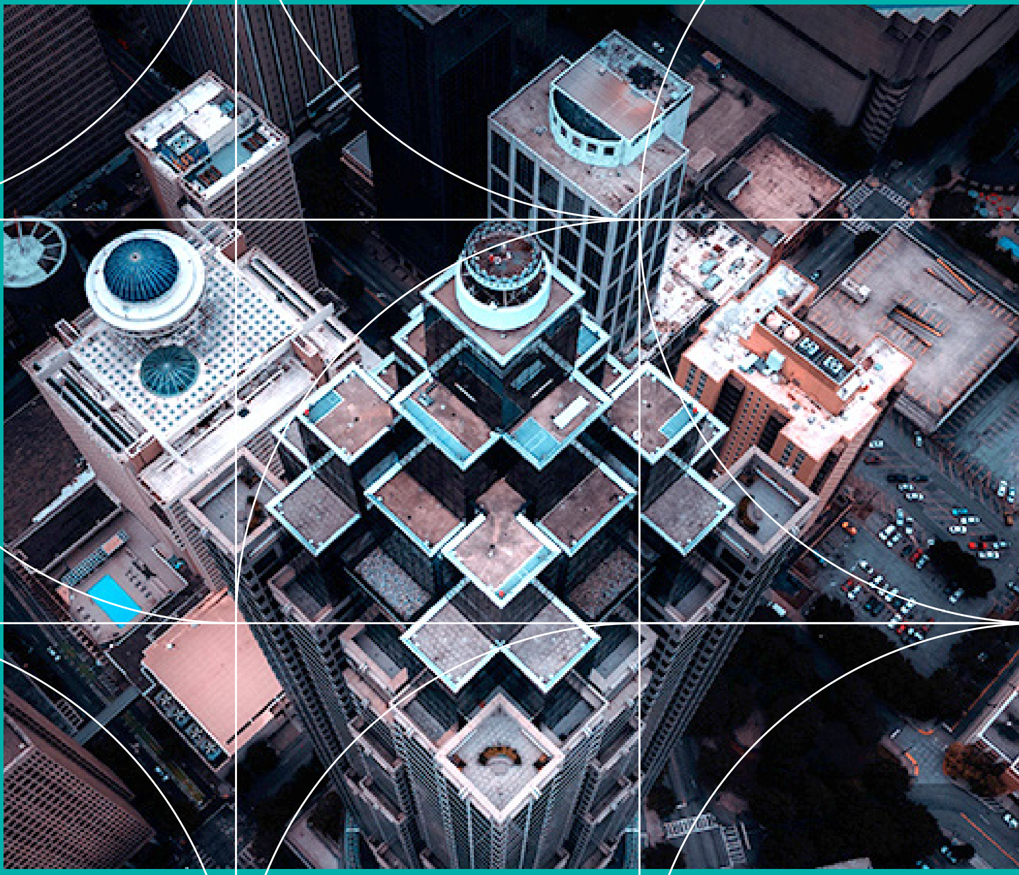
Seyfarth

2021 Real Estate Market Sentiment Survey



Seyfarth Shaw LLP

Executive Summary

As the nation continues to reckon with COVID-19 and its impact on every sector of the economy, 2021 may be remembered as a decisive year for the commercial real estate (CRE) industry. Executives are navigating the economic fallout from the 2020 recession while adapting to new market demands. Among many key topics covered in Seyfarth's 6th annual Real Estate Market Sentiment Survey, CRE executives weigh in on their top concerns, the new occupant in the White House, and how the work-from-home landscape will change the market moving forward.

Seyfarth's 2021 Survey examines the industry's current market sentiment as it grapples with a pandemic and a change in political power:

Relaxed Reserve: The majority of survey respondents believe the Federal Reserve will not raise or decrease interest rates in 2021. As the world continues to battle the pandemic and climb out of a recession, there may be broad consensus in the industry that rates can't go any lower and the chances of meaningful near-term inflation are slim. CRE executives could also be expressing general optimism for 2021 and confidence in the new Treasury Secretary Janet Yellen, a former chair of the Federal Reserve.

Pandemic Pulse: Understandably, the greatest concerns for the CRE industry this year revolve around the COVID-19 pandemic. The closing of public accommodations, the extension of tenant and borrower protections, and the economic fallout from the US recession rank the highest in the minds of real estate executives. As the pandemic creates new challenges for the industry, traditional fundamental fears have taken a backseat this year.

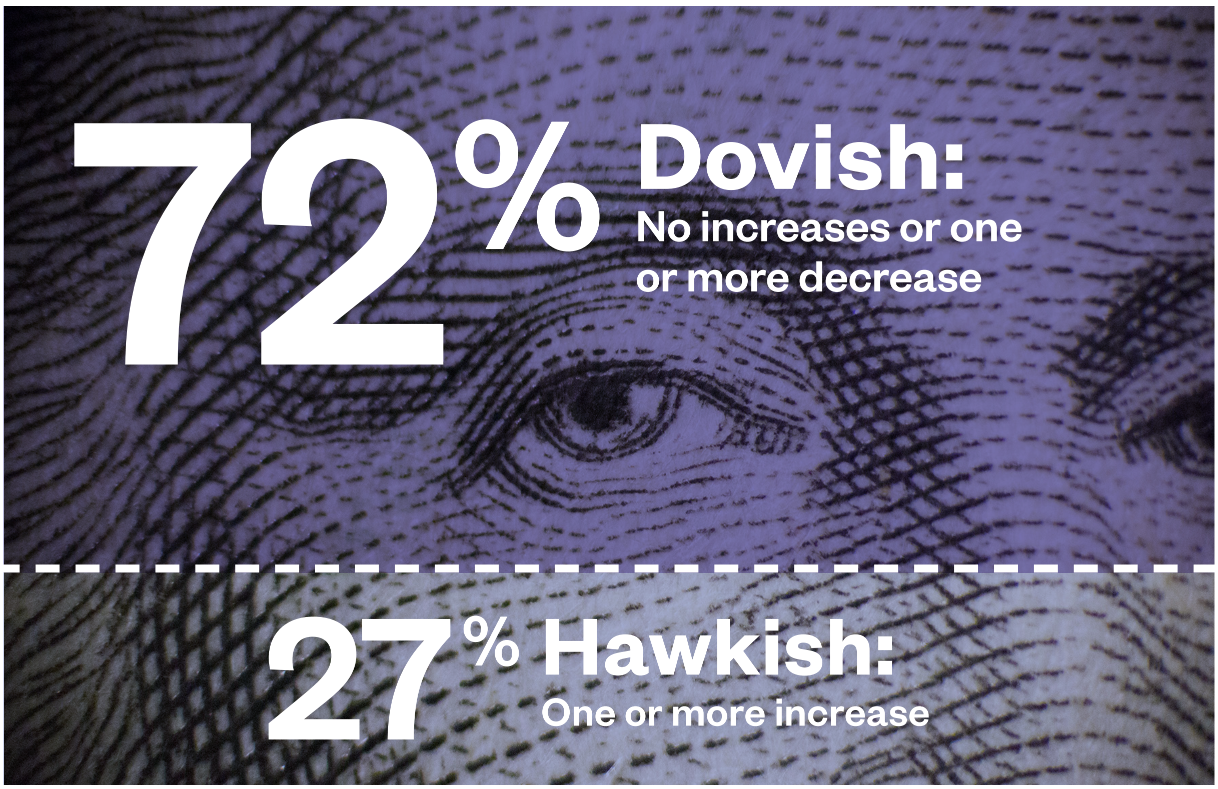
Bullish on Biden?: While most respondents believe the new Biden Administration will not have a positive impact on the real estate industry (54 percent), 46 percent of executives think the 46th President will have a positive impact. Historically, survey respondents have indicated that Republican economic priorities are more favorable for the market. However, the prospect of ending the pandemic this year may be reason enough to bet on Biden.

Tax Talk: If there is to be federal tax reform in 2021, most respondents believe it will have minimal to no impact on the industry. A 50/50 split in the United States Senate could have dampened any chance of significant reform. Also, given the current legislative priorities of the new Administration, a tax bill may not reach Congress until the 3rd quarter with a low probability of retroactivity for any adopted legislation.

Return to Resorts: The national vaccine roll-out and universal COVID-19 fatigue has many craving a vacation in 2021. As a result, most survey respondents believe resort hotels and the hospitality industry will be the first sector to rebound from the pandemic. In a close second, respondents rank the urban multifamily sector, which has retained strong demand from the younger workforce. On the other hand, the e-commerce boom does not bode well for enclosed malls.

Optimistic for Opportunity: Following a year of tremendous hardships, the CRE industry is overwhelmingly optimistic about their own operations moving forward in 2021. 85 percent of respondents see 2021 as a year of opportunity for their companies. While this may just be a reflection of self-confidence, low interest rates and governmental stimulus provide a positive forecast for entrepreneurs in a fragile market. The fortunes of CRE traditionally ride with its fundamentals, and a key fundamental is interest rates. As rates stay low, optimism stays high.

Q1: How many interest rate increases/ decreases do you expect the Federal Reserve to make in 2021?



Almost identical to last year (26 percent), 27 percent of respondents this year believe the Federal Reserve will raise interest rates at least once. 12 percent of respondents say the Federal Reserve will decrease rates at least once this year, down from 25 percent of respondents last year.

3 or more increases	2%
2 increases	10%
1 increase	15%
No increase or decrease	60%
1 decrease	6%
2 decreases	5%
3 or more decreases	1%

Most respondents (60 percent) believe the Federal Reserve will not act in either direction when it comes to interest rates in 2021. Last year, before the pandemic, 46 percent of respondents felt the same way. In 2020, the Federal Reserve decreased interest rates twice in March in response to the new pandemic.

6 percent of respondents expect one decrease, while 15 percent of respondents expect one increase.

Q2: Which of the following represent the greatest concerns for the CRE industry in 2021?

Shuttering of restaurants, gyms, stores, and other places of public gatherings resulting from COVID-19	800
Extension of (or new legislation in the nature of) tenant and borrower protections such as foreclosure moratoria or eviction moratoria	799
Recession in the United States	786
Remote working and space utilization	780
Taxation policies of the Biden Administration	772
Social and political climate	756
Distressed assets and loan defaults (capital market risk)	667
Rent control	569
Cybersecurity threats	561
Lawsuits against employers seeking damages resulting from COVID-19	550

The three greatest concerns facing industry executives in 2021:

1. Shuttering of restaurants, gyms, stores, and other places of public gatherings resulting from COVID-19 (800)
2. Extension of (or new legislation in the nature of) tenant and borrower protections such as foreclosure moratoria or eviction moratoria (799)
3. Recession in the United States (786)

In 2021, the pandemic will still weigh heavy on the minds of CRE executives as evidenced by their top three reported concerns. In 2020's survey, a potential recession secured the second spot amongst respondents' top fears. This year, the economic fallout from the US recession ranks third.

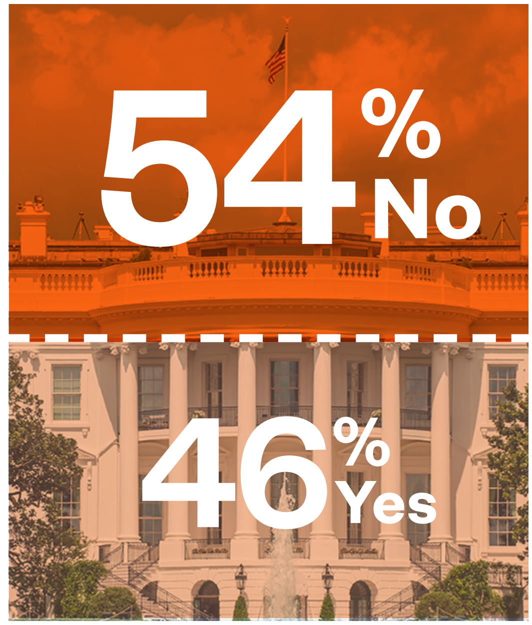
Notably, today's social and political climate ranks towards the middle of the pack while lawsuits against employers seeking damages resulting from COVID-19 finished last.

See methodology on page 12 for how this question was scored.

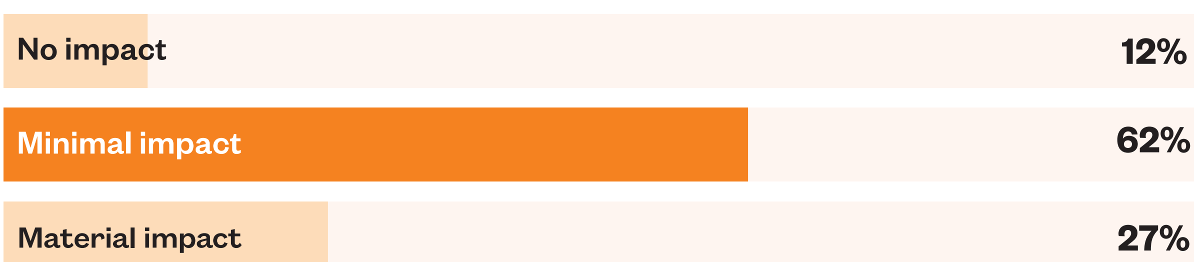
Q3: Do you think the Biden Administration will have an overall positive impact on CRE in 2021?

Respondents are almost split when asked to project the Biden Administration's impact on CRE in 2021. 54 percent of CRE executives believe the new White House will not have a positive impact. Surprisingly, 46 percent of respondents believe a Democratic executive branch will have an overall positive impact.

Notably, only 4 percent of respondents last year believed Joe Biden would be the most favorable candidate for the real estate industry. By way of comparison, in 2017, two-thirds of survey respondents (69 percent) believed the Trump Administration would have a positive impact on the market.



Q4: Do you anticipate any tax reform impacting the CRE industry in 2021 (e.g., repeal of pass-through income deduction, increase in marginal ordinary and/or capital gains tax rates, elimination of Section 1031, etc.)?



62 percent of survey respondents anticipate minimal tax reform impact on the CRE industry this year. 27 percent of respondents believe there will be material impact, while 12 percent of CRE executives anticipate no impact whatsoever.

Q5: Do you believe it is critical for Congress to pass liability shields or pandemic insurance laws similar to terrorism insurance?

Yes, I believe it is critical for Congress to pass liability shields	51%
No, I do not believe Congress needs to pass liability shields	49%
Yes, it is critical for Congress to pass pandemic insurance laws	54%
No, I do not believe Congress needs to pass pandemic insurance laws	46%

Survey respondents are evenly divided on the legislative necessity for both liability shields and pandemic insurance.

Q6: Taking the industrial and multifamily sectors out of consideration, when will the balance of the CRE industry return to pre-COVID-19 levels?

The majority of respondents (70 percent) think it will take at least two years for the CRE industry to return to pre-COVID-19 levels. Long lead times in transactions may also be a forecast factor.

28 percent of survey respondents are hopeful for a return next year while only 1 percent of respondents believe 2021 will be the year to return to normalcy.

Q7: Taking industrial and multifamily sectors out of consideration, will 2021 distressed levels reach 2008 levels?

78 percent of CRE executives do not believe this year's distressed levels will reach the levels seen during the 2008 recession, echoing the consistent optimism seen in responses to previous survey questions.

14 percent of respondents believe 2021 levels will reach 2008 levels and 8 percent of respondents anticipate 2021 levels to exceed the levels seen in 2008.

Q8: Do you think the shift to work-from-home will have long-term impacts on the office market? On the residential market?

Office market:

When evaluating the office market, a strong majority of survey respondents (90 percent) think the new work-from-home dynamic will have a lasting impact.

Residential market:

70 percent of respondents feel the same long-term impact on the residential market.

Q9: With the pandemic impacting where people want to live and work, will your company shift its investment sights to suburban markets and/or relocate all or part of your workforce to other states?

No	67%
Yes, we are shifting our investment sights to suburban markets	23%
Yes, we are planning to relocate all or part of our workforce to other states	2%
Yes, we are doing both	8%

Over two-thirds of respondents (67 percent) state the pandemic will have no bearing on their investment sights and they will not relocate their workforce to other states.

One-third of respondents (33 percent) indicate that the pandemic will play a factor in company decision-making.

Q10: Which sector of the CRE industry will rebound the quickest from the pandemic?

Urban office	8%
Urban multifamily	39%
"Bricks and sticks" retail	8%
Enclosed malls	2%
Resort hotels and hospitality	40%
Convention/business hotels and hospitality	5%

To little surprise, survey respondents have the most confidence in the resort hotels and hospitality (40 percent) and urban multifamily (39 percent) sectors.

Enclosed malls (2 percent) and the convention/business hotels and hospitality (5 percent) sectors face the hardest path ahead, according to survey respondents.

Q11: Do you foresee 2021 as a year of opportunity or retrenchment for your company?

Consistent with the sentiment for the market in the responses to Question 1, an overwhelming 85 percent of respondents believe that 2021 will be a year of opportunity for their companies.

Conversely, a small 15 percent of respondents believe retrenchment is more likely for their organization this year.

Methodology

In January 2021, 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. 144 respondents took the survey.

*Question No. 2 used an inverse weighted ranking system to score each response. For example in No. 2, 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 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, we have 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 comprehensive array of asset classes, including office, industrial, multifamily, retail, health care, and data center projects. We leverage our size and depth to partner with clients and to invest in material enhancements in how commercial real estate law is practiced.