



2016

Real Estate Market
Sentiment Survey

Executive Summary

With global stock markets in turmoil to begin the year, all eyes are on the Federal Reserve as U.S. commercial real estate executives ranked rising interest rates as their top concern for 2016, according to Seyfarth Shaw's inaugural survey of the commercial real estate market.

All eyes are on the Federal Reserve in 2016.

Taking a closer look at the Federal Reserve, Seyfarth's 2016 Real Estate Market Sentiment Survey found that the vast majority of commercial real estate executives are hawkish: Nine out of 10 hold a hawkish outlook for the Fed, expecting it to raise rates. Of these "hawks," 71 percent expect multiple rate increases in 2016.

Despite this sentiment, today's global economic volatility is quickly impacting interest rates for all purposes as commercial real estate executives eye the next move from the Federal Reserve.

From interest rates to supply and demand issues to terrorism, Seyfarth's 2016 Real Estate Market Sentiment Survey reveals the top concerns facing the industry:

Pain Point: Regardless of how they view the Fed, 43 percent of all respondents believe the U.S. commercial real estate market can absorb a 51–100 basis point increase before experiencing a material adverse impact.

Focus on Fundamentals: Amid widespread anticipation for a rate increase (or two), respondents ranked commercial real estate supply and demand as their second greatest concern for 2016.

'Gig Economy' Disruption: Looking further down the road, respondents named the "gig economy" and the rise of Uber-like on demand workforces as their greatest emerging concern.

The Specter of Terrorism: While the majority of respondents (70 percent) are not concerned that an act of domestic terrorism will impact their 2016 projects, the remaining 30 percent are prepared to change how and where they buy, sell, capitalize and lend in response to such an incident.

Brain Drain: 83 percent of respondents are concerned about the impact of "brain drain" on the commercial real estate workforce as the industry embarks on a major generational shift.

Kicking the Can Down the Road: Concerns about the industry's ability to refinance record levels of maturing CMBS loans remain widespread: 87 percent of respondents expressed concern over how the industry will refinance the wave of \$111 billion in CMBS loans coming due in 2016.

Presidential Favorites: With primary season entering full swing, industry icon and Republican candidate Donald Trump is the clear frontrunner among commercial real estate executives: One-third named Trump the "most favorable" presidential candidate for the commercial real estate industry, trailed far behind by Jeb Bush (R - 13 percent) and Hilary Clinton (D - 12 percent) and Marco Rubio (R - 11 percent).

Q1: Which best describes how you think the Federal Reserve will act in 2016?



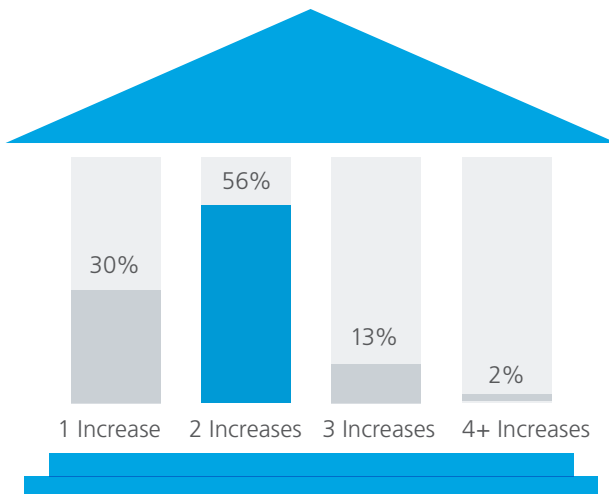
Hawkish: At least one rate increase



Dovish: No rate increase

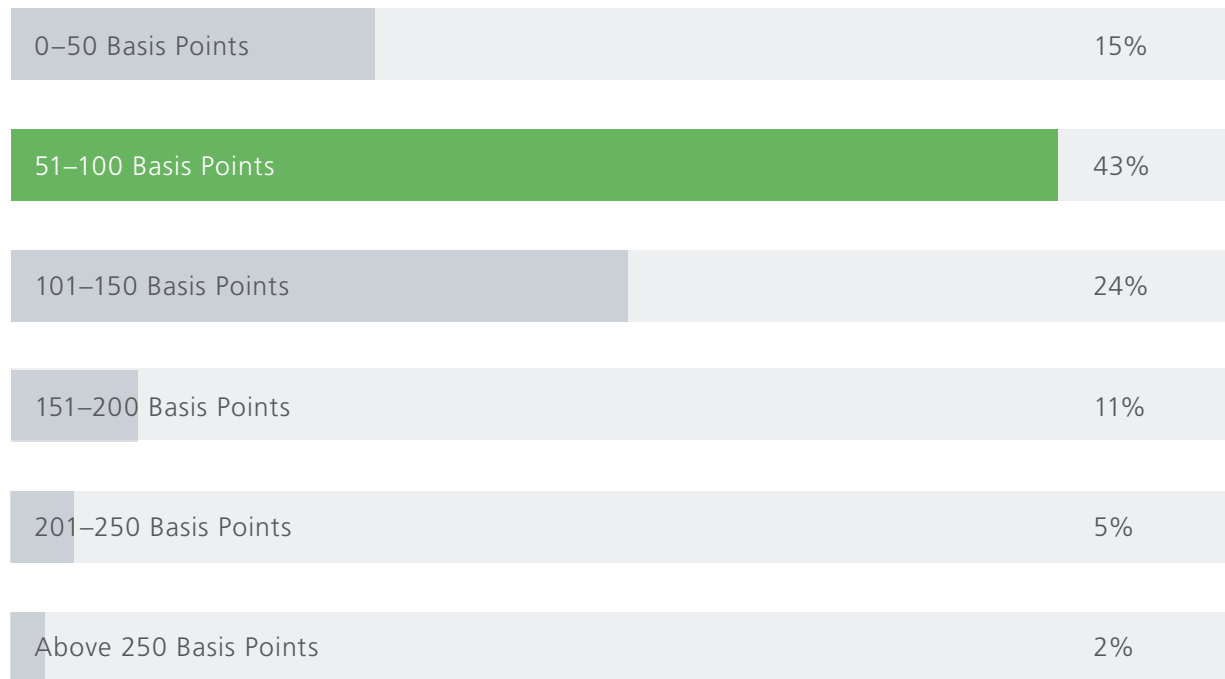
By a nearly 9 to 1 ratio, respondents described themselves as Hawkish vs. Dovish, illustrating the great certainty with which executives believe the Federal Reserve will raise interest rates at least once in 2016.

Q2: If hawkish, how many rate increases do you expect from the Federal Reserve in 2016?



The majority of respondents (56 percent) expect two rate increases in 2016 with another 15 percent expecting three or more.

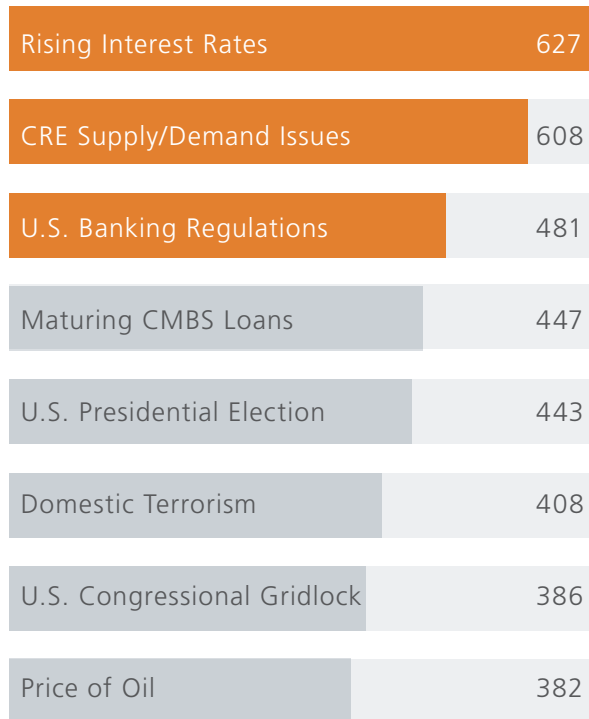
Q3: In 2016, how much of a move up in interest rates can the CRE industry absorb before there is a material adverse impact on the CRE industry?



The largest group of respondents (43 percent) believe the commercial real estate market can absorb a 51–100 basis point increase before experiencing a material adverse impact.

Confidence quickly erodes after 101 basis points: 24 percent of respondents believe the market could absorb an increase of 101–150 basis points and only 11 percent believe the industry could safely manage an increase of 151–200 basis points.

Q4: Which of the following represent the greatest concerns for the CRE industry in 2016?



The three greatest concerns facing industry executives in 2016:

1. Rising interest rates (627)
2. CRE supply / demand issues (608)
3. US banking regulations (481)

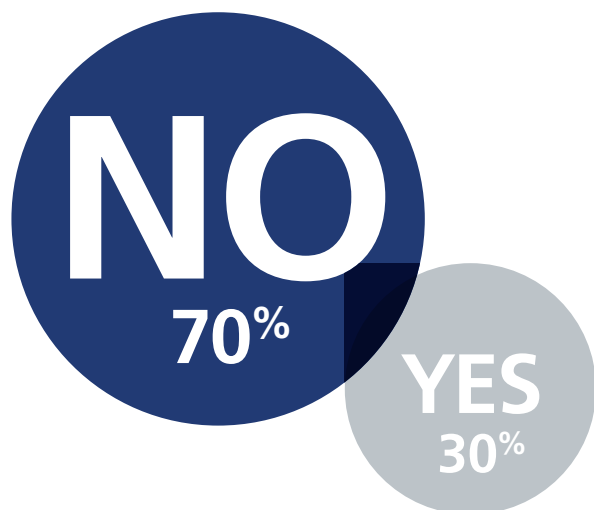
The remaining concerns clustered in close proximity to each other with the price of oil (382) registering the weakest level.

Q5: Which of the following represent the greatest emerging concerns for the CRE industry?

The top emerging concern among executives is the “gig economy” (253), but respondents are also keeping a close eye on “brain drain” in the CRE workforce (231).



Q6: Are you concerned that an act of domestic terrorism will impact your 2016 projects?

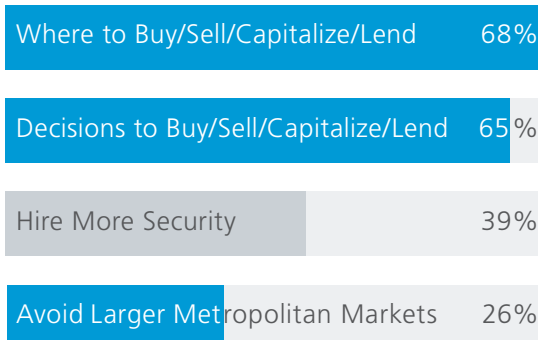


Respondents were split 70/30 regarding concerns that an act of terrorism on US soil would impact their projects in 2016.

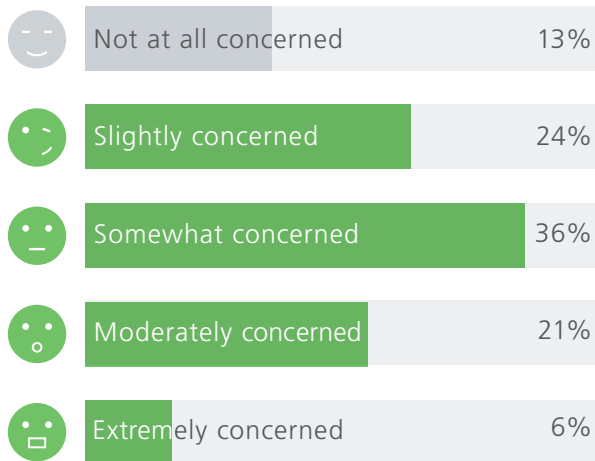
Q7: If “yes” to Q6, how would an act of domestic terrorism likely impact these projects? Check all that apply.

Such an incident would impact both how and where respondents buy, sell, capitalize and lend moving forward.

Specifically, more than one quarter of respondents (26 percent) reported that they would avoid larger metropolitan markets altogether.



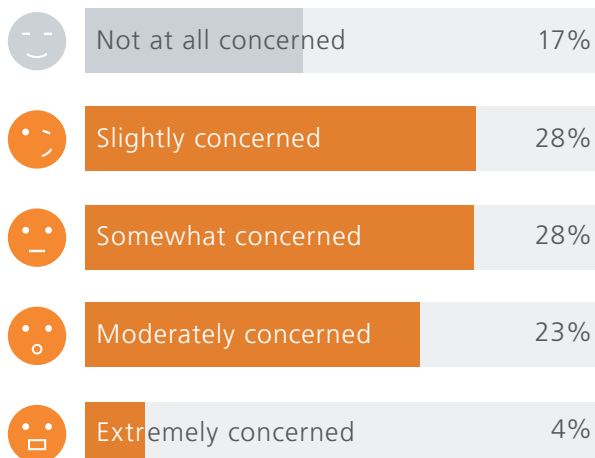
Q8: How concerned are you about the industry's ability to refinance record levels (\$111 billion) of maturing CMBS loans in 2016?



There is widespread concern among respondents over current CMBS loan levels: 87 percent reported concerns with 27 percent of these appearing on the highest end of the spectrum.

Such concern could be further exacerbated by an environment of rising interest rates as predicted by respondents in Question 1, which would complicate or curb refinance efforts.

Q9: How concerned are you about the generational talent shift (i.e., "brain drain") of the CRE workforce?

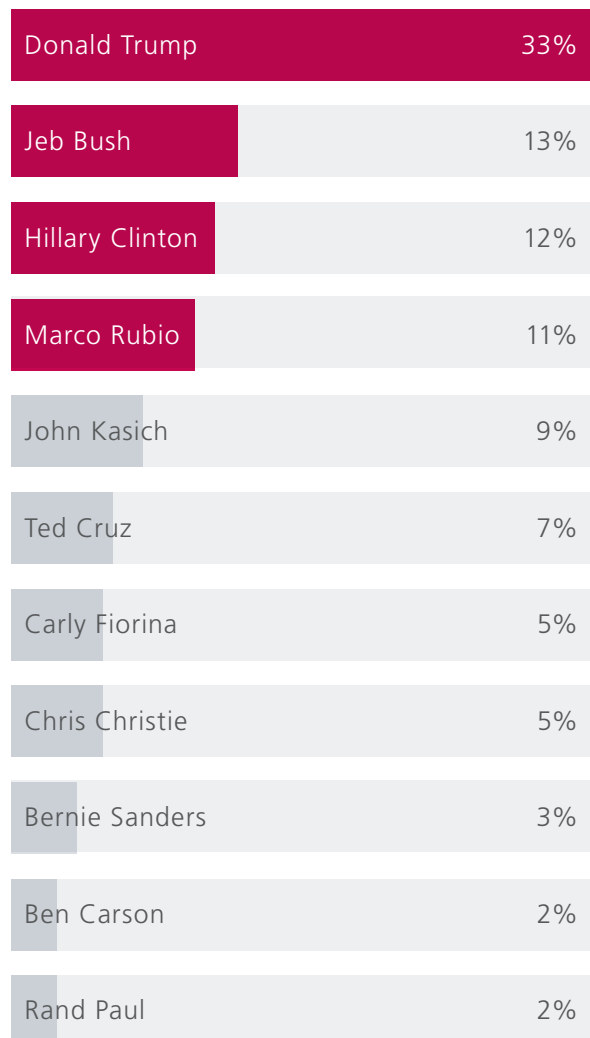


Consistent with the findings of Question 5, the overwhelming majority of industry executives (83 percent) are concerned about the impact of "brain drain" on the workforce.

Q10: Of the following 2016 presidential hopefuls, who represents the most favorable candidate for the CRE industry?

One-third named Donald Trump* as the best presidential candidate for the commercial real estate industry, trailed far behind by Jeb Bush (R - 13 percent) and Hilary Clinton (D - 12 percent) and Marco Rubio (R - 11 percent).

Notably, the recent surge in support for liberal Democrat Bernie Sanders is not shared by commercial real estate executives who ranked Sanders near the bottom of all candidates (3 percent).



Methodology

In January 2016, 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. 139 respondents took the survey.

Question No. 2 was only made available to those who answered “Hawkish” to Question No. 1.

Questions Nos. 4 and 5 used an inverse weighted ranking system to score each response. For example in No. 4, 1 = 8 points, 2 = 7 points, 3 = 6 points, 4 = 5 points, 5 = 4 points, 6 = 3 points, 7 = 2 points, 8 = 1 point.

Question No. 7 was only made available to those who answered “Yes” to Question No. 6.

Due to rounding, percentages used may exceed 100.

*While not affiliated with Donald Trump’s campaign, Seyfarth Shaw does represent the Trump Organization.

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