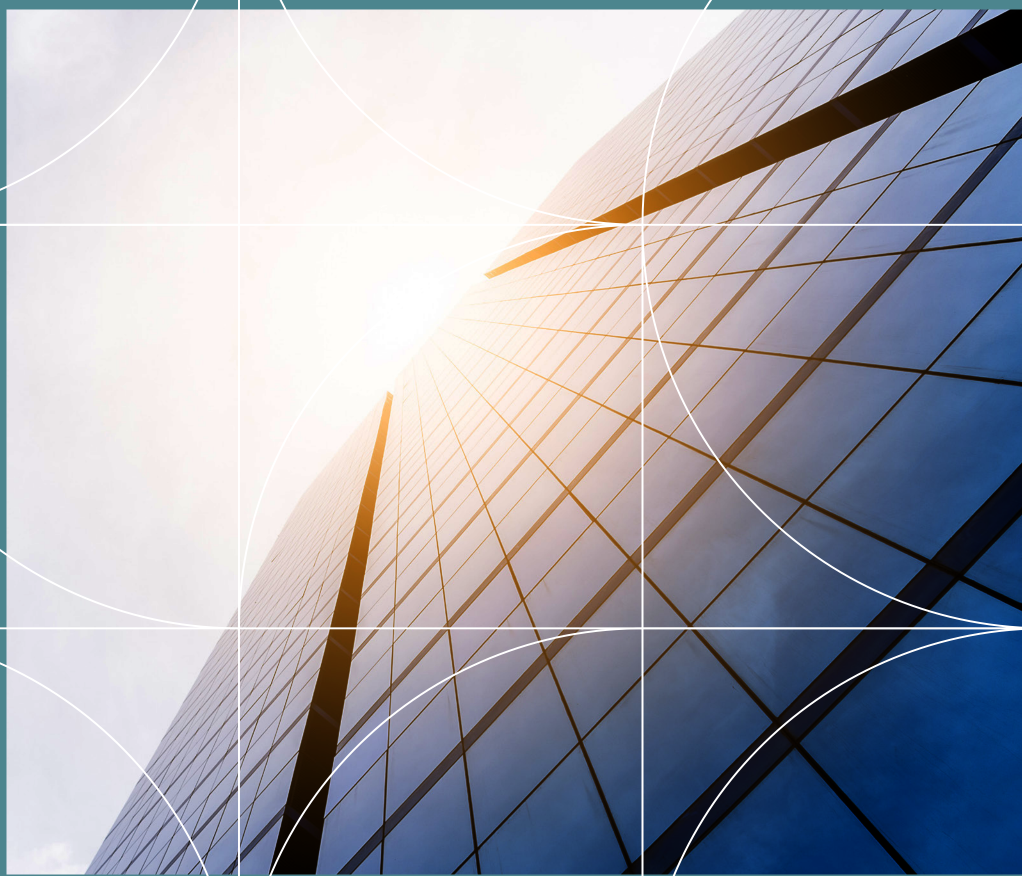
Seyfarth

2022 Real Estate Market Sentiment Survey



Seyfarth Shaw LLP

Executive Summary

As the global economy continues to recover from the pandemic's impact over the last two years, 2022 marks a turning point for the commercial real estate (CRE) industry. Executives are facing historic inflation, shifting workplace dynamics, and an unstable supply chain. However, optimism remains high for the next year as the industry carries over healthy momentum and a sharpened focus on new investment strategies. Among many key topics covered in Seyfarth's 7th annual Real Estate Market Sentiment Survey, CRE executives weigh in on their top concerns, the migration to remote work, and vaccine mandates.

Seyfarth's 2022 Survey examines the industry's current market sentiment as it navigates economic challenges and a new workplace standard:

More Momentum: The CRE industry is feeling optimistic about 2022 even with multiple rate hikes likely commencing in March. Almost identical to last year's sentiment, 84 percent of real estate executives see 2022 as a year of opportunity. Opportunistic feelings may be linked to the desire to accelerate deals before rate hikes hit the market. While the survey consensus follows the Fed guidance and respondents predict at least three hikes this year, industry executives are more uncertain about where the interest rate ceiling is and when the market starts to suffer.

Cost Concerns: The top three concerns for real estate executives this year correspond to the many challenges impeding economic growth for every industry in 2022. While survey respondents were focused on pandemic-specific problems in 2021, CRE professionals are now flagging economic hurdles as areas of high trepidation: inflation, labor shortages, and supply chain challenges. Delays in the Emergency Rental Assistance Program have been a hot topic in industry circles but the holdup ranks as the lowest concern in this year's survey.

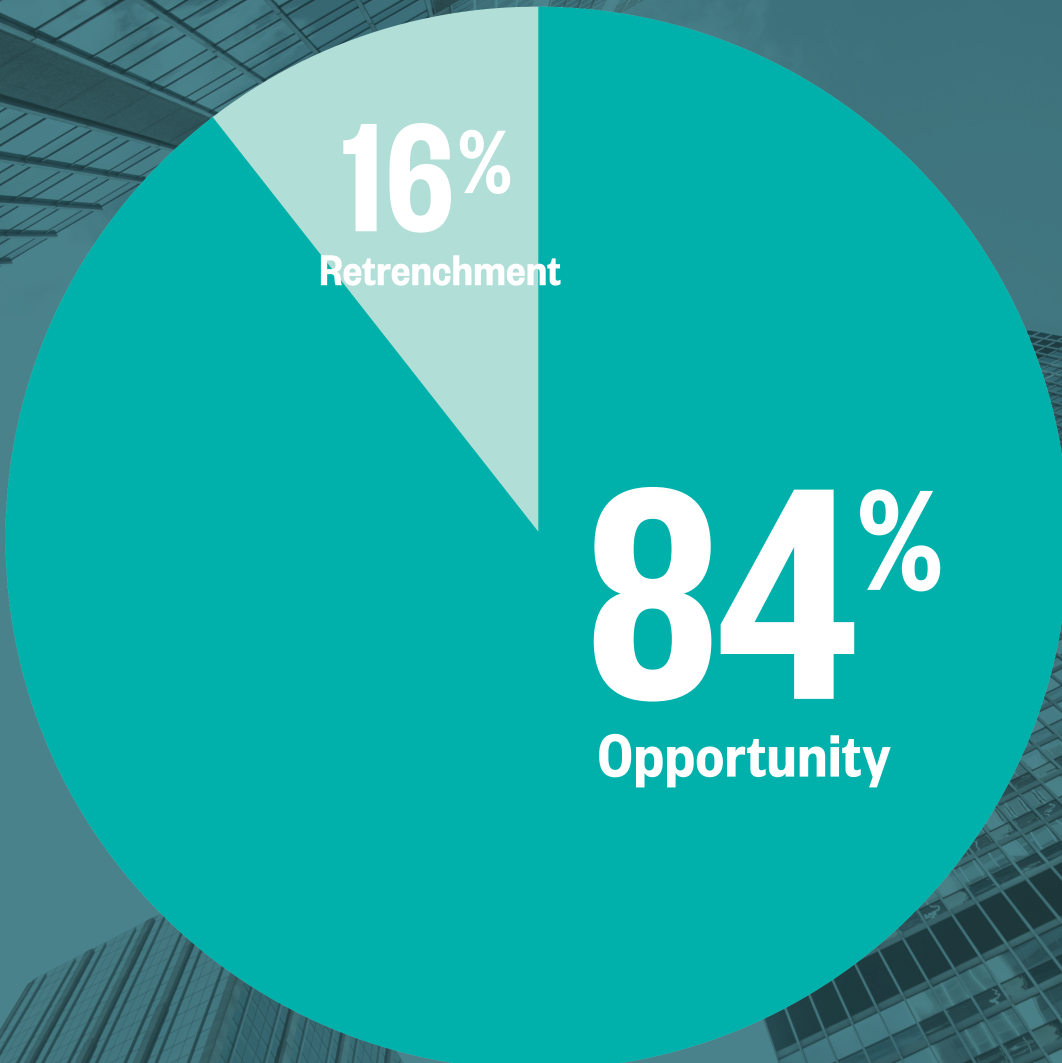
Bridge Building: Last year, 46 percent of executives thought the Biden Administration would have a positive impact on the real estate industry. In November 2021, the Administration's Infrastructure Investment and Jobs Act passed with bipartisan support. 25 percent of survey respondents say they are looking to take advantage of the new legislation in the next five years. Since infrastructure projects tend to move slowly, investment plans from a quarter of development decision-makers in the first year is significant.

Culture Crisis: In what may be the biggest warning sign from the 2022 survey, over three-quarters of CRE executives say the shift to work-from-home models has adversely impacted their company culture. Respondents are clear that their bottom line has remained healthy, but describe a new workplace that struggles to maintain employee loyalty and has seen corporate identity dip. Next year's sentiment will be an important indicator for the sector as many of these hybrid arrangements become industry standard.

Shot Split: The CRE industry is split on whether to mandate vaccines as a condition of employment with 52 percent of respondents indicating that their company does not require the shot. Concern around the "Great Resignation" may account in part for the resistance to vaccine mandates. In addition, declining regional infection rates and the defeat of the federal "Vaccine or Test" rule at the Supreme Court may have played a hand.

Turn Away Tokens: Despite the increased interest of tokenization across the country, the CRE industry does not yet see non-fungible tokens as a viable form of capital in their transactions. Almost all survey respondents say they will pass on the new strategy this year. While most admitted they are confused by the concept, 19 percent of real estate executives are skeptical of the lack of regulation in the novel marketplace. 8 percent are satisfied with the current menu of capital source options.

Q1: Do you foresee 2022 as a year of continued opportunity or retrenchment for your company?



Despite Fed Chair Jerome Powell signaling rate hikes commencing in March, an overwhelming 84 percent of respondents believe that 2022 will be a year of opportunity for their companies. With only 16 percent of respondents believing retrenchment is on the horizon, most CRE executives do not see a market slow down but, instead, a continuation of 2021 momentum.

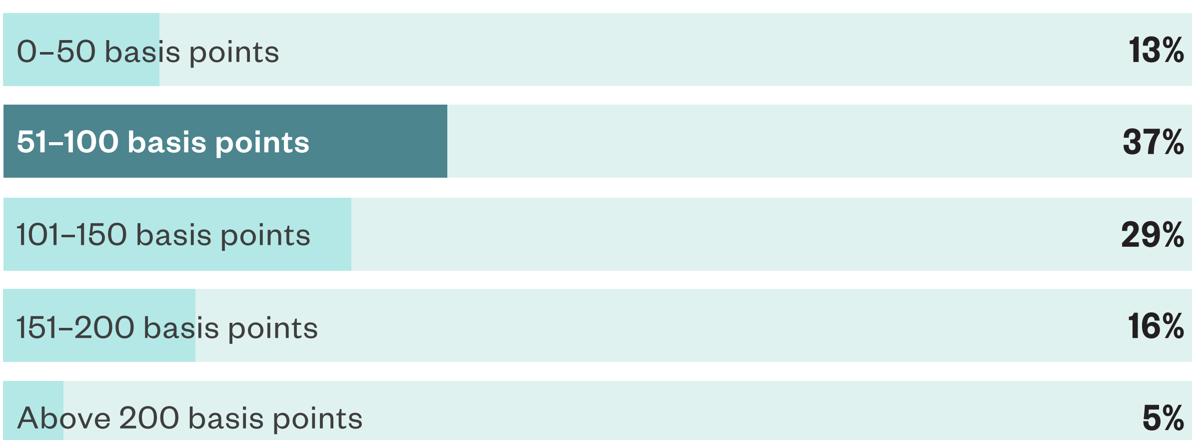
This sentiment is almost identical to last year when 85 percent of respondents believed that 2021 would be a year of opportunity, and 15 percent believed retrenchment was more likely.

Q2: The Federal Reserve has announced it will increase short-term interest rates in 2022. How large of an aggregate increase in 2022 do you expect?

Most respondents (65 percent) are following the Fed guidance and expect two to four interest rate hikes, at 25 basis points a clip.

Surprisingly, 16 percent of survey respondents are anticipating an aggregate increase of more than 100 basis points.

Q3: How much of an increase in interest rates can the commercial real estate (CRE) industry absorb before there is a material adverse impact in 2022?



37 percent of respondents believe the CRE industry is looking over the edge and can only absorb 51-100 basis points before there are adverse consequences.

29 percent of respondents think the market is stronger and can absorb 101-150 basis points. This market confidence may be a reflection of historic low rates in 2021, sound fundamentals, and plentiful debt and capital.

Q4: Which of the following represent the greatest concerns for the CRE industry in 2022?

Inflation and rising costs	796
Labor/workforce challenges	747
Supply chain challenges	701
Omicron and continued COVID-19 variants	653
Remote working and space utilization	558
Rising crime rates in urban areas	491
Social and political climate	448
Cybersecurity threats	447
Climate change/severe weather	291
Delays in the Emergency Rental Assistance Program	258

The three greatest concerns facing industry executives in 2022:

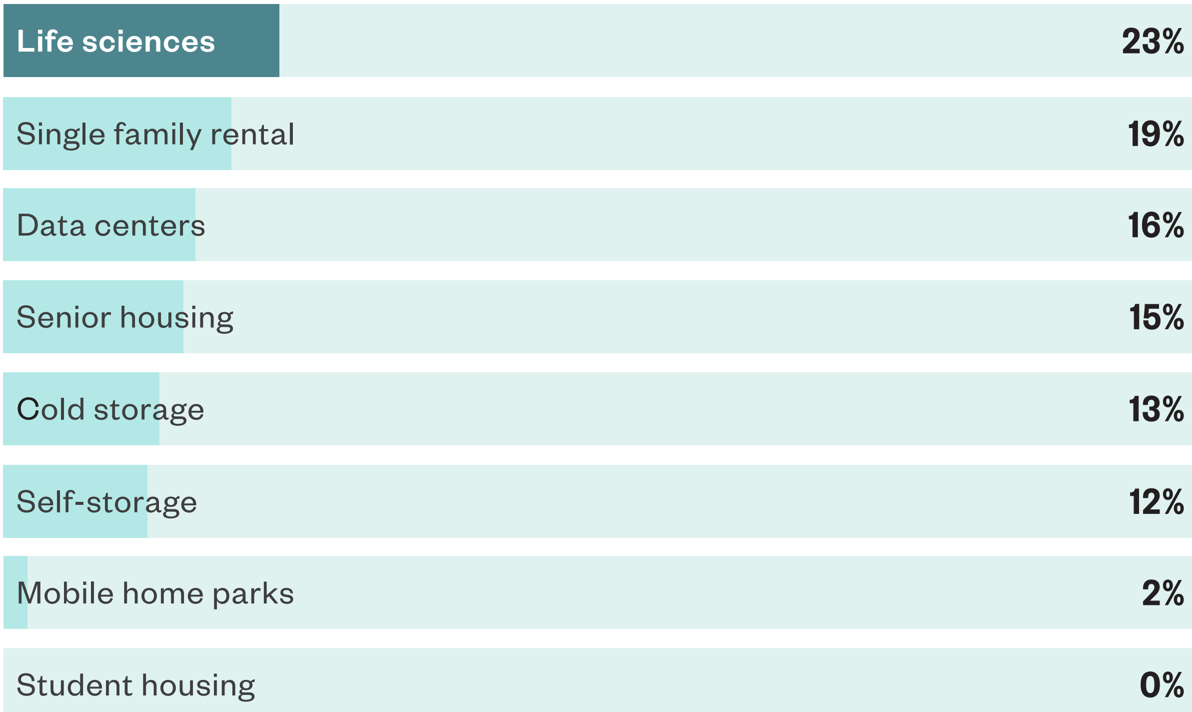
1. **Inflation and rising costs (796)**
2. **Labor/workforce challenges (747)**
3. **Supply chain challenges (701)**

As the world continues to recover from two pandemic years, economic challenges dominate the leaderboard for CRE executives in 2022. Falling just outside the top three, respondents listed Omicron and continued COVID-19 variants as their next top concern.

Interestingly, remote work and today's social/political climate remained in the middle of the pack while the concern for cybersecurity threats increased slightly from 2021.

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

Q5: Which alternative real estate sector presents the greatest opportunity for your investment strategy in 2022?



CRE executives are eager to capitalize on the current market momentum and are set on investing in a broad range of sectors in 2022. Leading the group is life sciences (23 percent), followed by single family rental (19 percent), and data centers (16 percent).

Q6: Has the migration to work-from-home/hybrid models adversely impacted your company?

Bottom line:

Yes	25%
No	75%

Company Culture:

Yes	68%
No	32%

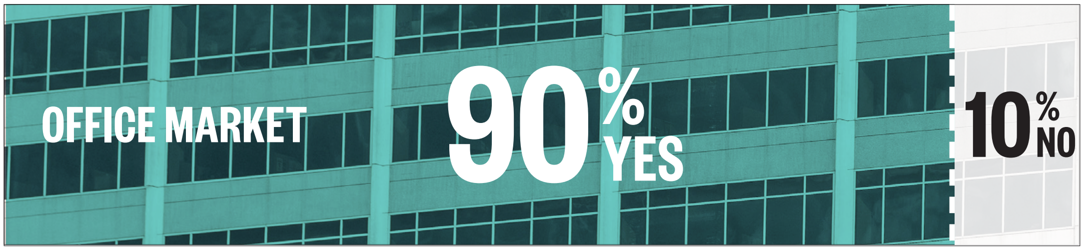
Employee Loyalty:

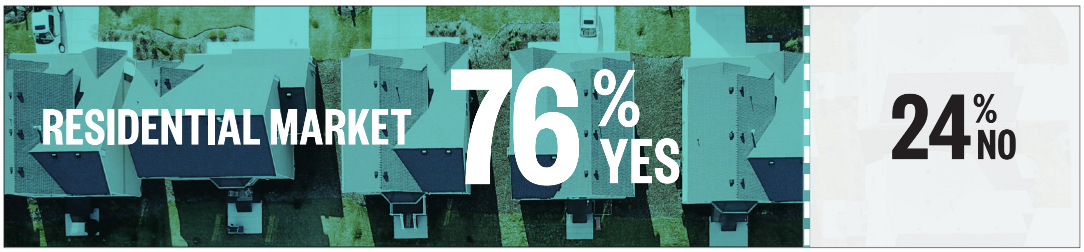
Yes	38%
No	62%

While three-quarters of survey respondents (75 percent) say their bottom line has held strong during the remote work migration, 68 percent of CRE executives state that company culture has eroded because of the shift.

38 percent of respondents believe that employee loyalty has also been adversely impacted by new hybrid work models.

Q7: Will the shift to work-from-home/hybrid models have long-term impacts on the office market? On the residential market?

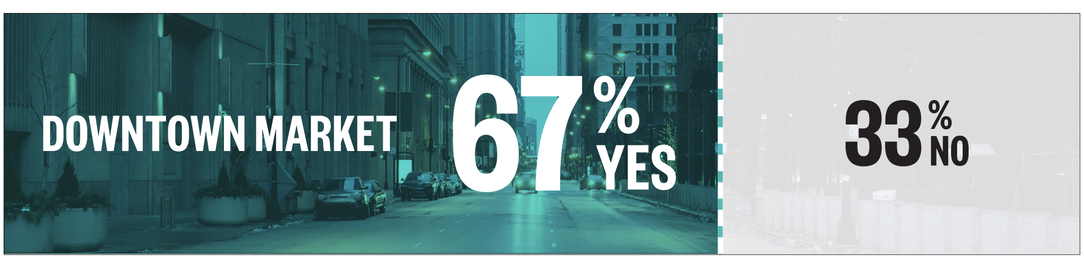




76 percent of survey respondents think the new work-from-home dynamic will have a lasting impact on the residential market. This sentiment increased slightly from last year when 70 percent of respondents felt similarly.

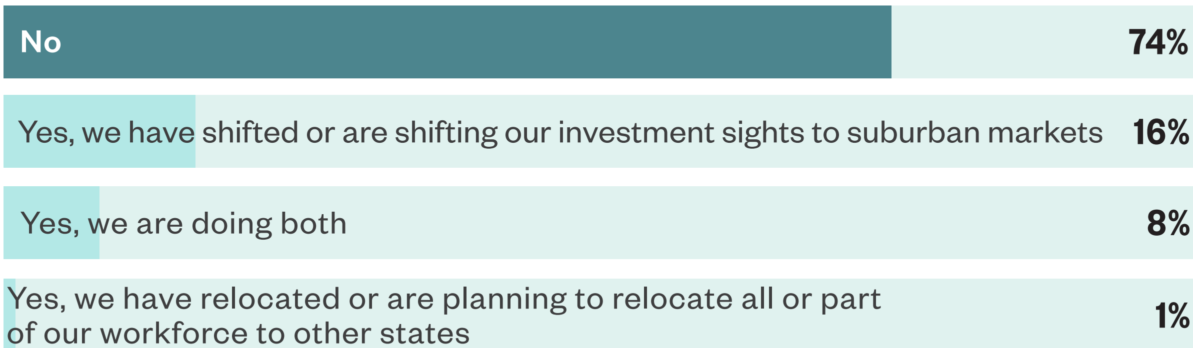
When evaluating the office market, the same majority of survey respondents from last year (90 percent) think hybrid model ramifications will be felt for a long time.

Q8: Will the downtown office market suffer a material downturn in the next two years?



Despite the gloomy forecast for the office market in the previous question, a sizeable third of survey respondents (33 percent) believe holding on to these downtown assets is a smart move in the next two years.

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

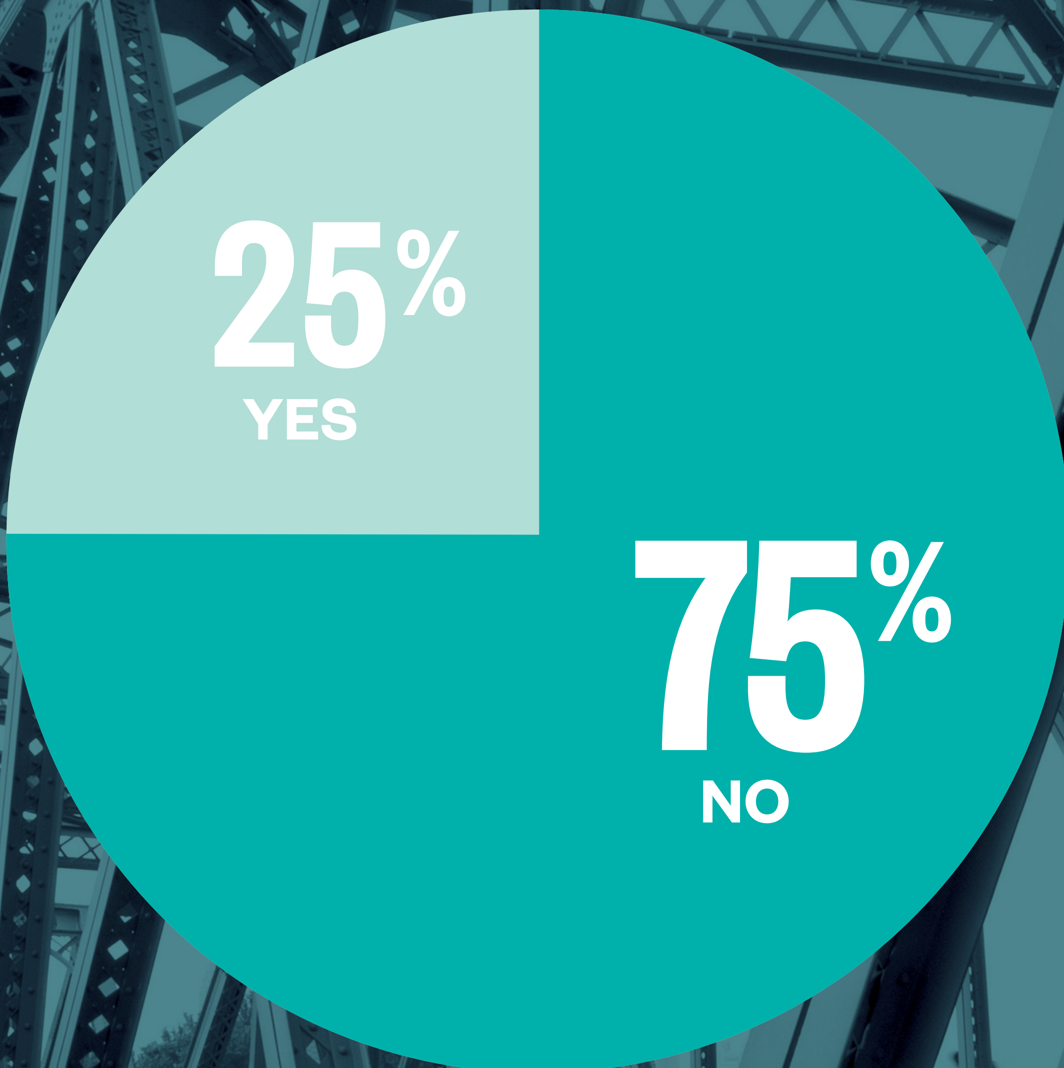


74 percent of respondents state the pandemic has had no bearing on their investment strategies and they will not relocate their workforce to other states. This sentiment has risen from last year when 67 percent of respondents did not expect to adjust their plans.

A quarter of respondents (25 percent) indicate that the pandemic has played a factor in company decision-making:

- 16 percent – shifted or are shifting investment sights to suburban markets
- 1 percent – relocated or are planning to relocate all or part of their workforce to other states
- 8 percent – shifted or are shifting investment sights to suburban markets and relocated or are planning to relocate all or part of their workforce to other states

Q10: With the passing of the Infrastructure Investment and Jobs Act, will your company increase its investments in infrastructure-related projects in the next five years?



Notably, a quarter of survey respondents (25 percent) plan to increase their company's investments in infrastructure-related projects as a result of the new federal legislation.

Significantly, a majority of respondents who said Yes (69 percent) are actively involved in development for their organizations.

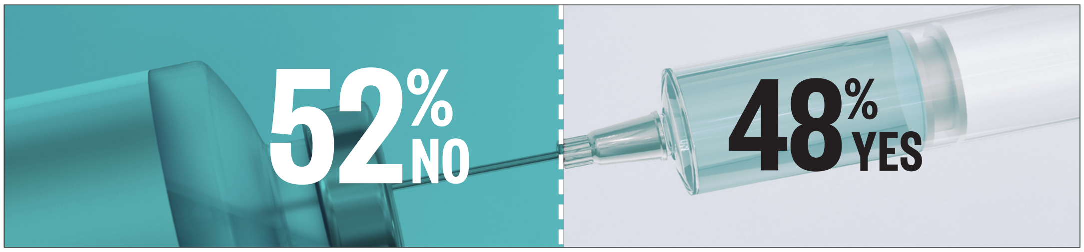
Q11: Have you considered tokenization as a capital strategy in your CRE transactions?

Q12: If no, what is the major impediment to such a strategy?

Lack of understanding of the use of tokenization in CRE	67%
Lack of regulation in the marketplace	19%
Abundant capital sources	8%
Low interest rates	5%

Despite the trending talk, 97 percent of CRE executives are not considering tokenization as a capital strategy. When asked why not, over two-thirds (67 percent) of respondents point to a lack of understanding while 19 percent of respondents are hesitant to embark on the new capital without meaningful regulation.

Q13: Does your company have a vaccine mandate policy?



There was a near 50/50 split amongst respondents when asked if they are subject to a vaccine mandate policy at work.

Q14: Do you plan to increase travel to in-person client meetings and/or conferences in 2022?

69 percent of CRE executives plan to grab more frequent flyer miles in 2022. Even though the Omicron variant peaked in January, most respondents anticipate a return to normal and plan to increase travel expenses—which have been at an all-time low during the pandemic.

Methodology

In January 2022, 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. 128 respondents took the survey.

- Question No. 4 used an inverse weighted ranking system to score each response. For example in No. 4, 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

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About Seyfarth's Real Estate Department

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