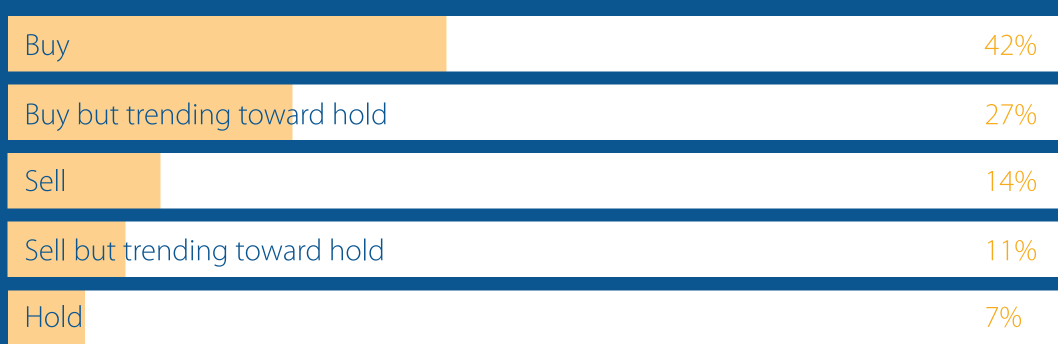
NATIONAL INVESTOR SENTIMENT REPORT

HEADING INTO 2017

Real Capital Markets

As commercial real estate investors turn their focus to 2017, investors remain bullish on buying commercial properties across all sectors and particularly those in the multi-family segment. A significant majority of commercial real estate investors—approximately 70 percent—are focused on acquiring property through the end of 2016, and likely into 2017, according to a new survey by Real Capital Markets (RCM).



The Investor Sentiment Survey was conducted in November 2016 by RCM, the premier global, online marketplace for buying and selling commercial real estate. RCM surveyed approximately 350 investors from around the United States to gauge their investment strategies and outlook heading into 2017. Survey respondents ranged from leaders of global capital markets investment firms to principals from entrepreneurial agencies and private family offices. Some are involved in fewer than 10 transactions annually while others typically complete more than 100.

Trends that have been the benchmark of the industry for a number of years remain firmly intact, though subtle changes may be in the offing:

- Multifamily properties remain as the investment of choice—favored by more than half of the participants—as investors generally view those assets as the most stable and as having the least amount of risk.
- Industrial assets, which have been on a long run with investors, also are favored, with 34 percent of respondents actively seeking these properties.
- The vast majority of investors are looking for value-add opportunities as a means to enhance value and create wealth.
- The middle market ($30M to $100M) has a larger supply of deals and more investors than the over $100M category.
- Geographically, properties in the Southern and Western U.S. are most aggressively targeted by 58 percent and 47 percent, respectively.

"The U.S. remains the best place to invest money," said John Miller, a Director with AEW Capital Management, and a survey respondent. "There is a lot of foreign capital coming in and there has been development restraint in many market segments, especially in the retail sector. In many markets there are not enough investment quality assets, which is pushing up pricing and causing many investors to look to secondary markets to achieve the desired yield."

"RCM's Investor Sentiment Survey showed that investors and those that advise them remain diligently focused on identifying opportunities and executing transactions, said Steve Shanahan, Executive Managing Director, Real Capital Markets. "Many investors remain optimistic in spite of economic conditions, any potential interest rate changes, as well as domestic and international events that could have impacted activity in the short term."

Jay Olshonsky, President, NAI Global, understands the "buy" sentiment expressed by the RCM survey respondents, and further explains why nearly 30 percent of survey respondents may be trending toward hold. "There is some underlying economic uncertainty," Olshonsky said. "Contributing to that is the tremendous run of buying opportunities in the last three to five years. Some are wondering how long this pace can continue."

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>
> C. John Miller, IV,
> Director, AEW Capital Management

Multi-family Still Reigns

As multi-family sales volume approaches record levels in 2016, it remains the most sought after asset class, appealing to more than half (51 percent) of principals surveyed. Industrial, retail and office assets were neck and neck for second place among the most appealing sectors with 34, 32 and 32 percent, respectively. Land and hospitality assets were listed as targets by 20 percent and 15 percent of principals, respectively.

Stability and the potential for strong returns are key factors fueling the multi-family markets. "Apartments provide safe, predictable returns and preservation of capital. That's why they are the most desirable," says Brian McAuliffe, president of the Capital Markets division at CBRE. "When the markets and investors shift to greater risk profiles, the ranking will change."

"Apartments are often viewed as a great "defensive" investment play because they perform the best of all sectors in a downturn," says McAuliffe. "Moreover, multifamily is generally seen as a safe investment, providing predictable returns and preserving the investment capital – especially relative to other property sectors which are often more volatile and risky. However, when capital is willing to take more risk, the upside from other property sectors can be very rewarding."

McAuliffe cautioned that while the apartment market in general is still very desirable, some markets—where supply is reaching its peak and rent growth may not reach national averages—already have fallen off. He added that, in his own experience, multifamily and industrial are almost equal in terms of preferred assets of choice.

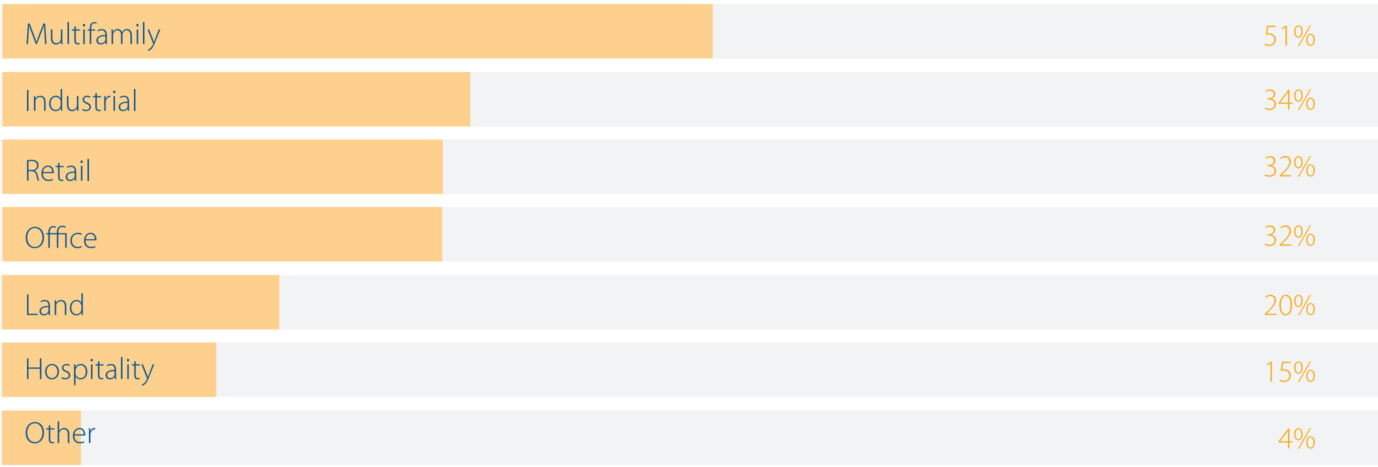
Miller cautioned that though the apartment sector is still attractive, some gateway markets have become over-built.

Industrial Still Strong

The industrial segment has been on a hot streak for several years, with leasing, construction and investment sales buoyed by strong supply chain dynamics and the expansion of e-commerce. The investment landscape has been awash with foreign capital, much of it parlayed into large platform buys that combine multiple industrial assets.

The survey showed that 34 percent of respondents were actively looking for industrial assets across the country.

Both Miller and Olshonsky noted that the industrial sector is viewed as more stable than other asset classes, such as hotels, retail and office properties. While the potential returns might not always be as high, any downside is more moderate.



Retail Outlook

According to Miller, the retail sector has the attention of many institutional investors, but the focus is mainly on Class A assets rather than those that need repositioning or are considered value-add buys. In some markets there has been a feeding frenzy for Class A assets due to a shortage of supply and increased demand for quality centers.

AEW Capital Management, for example, is selectively buying quality retail assets across the country, but staying away from those with higher risk. "As you look at the retail landscape, there still are many assets available that have outlived their usefulness and are not considered good long-term investments," Miller said. "Our focus is on the higher quality centers with established retailers and strong demographics. We believe those types of investments are poised to deliver stable income returns with some opportunity for appreciation."

> "There are lots of prospective buyers, particularly in the middle market segment, that are seeking to allocate a dearth of capital in income-producing assets."
>
> Brian McAuliffe,
> President, Capital Markets, CBRE

Middle Market a Big Target

This strong level of investors in some form of "acquisition mode" is not surprising to veteran investment brokers. "There are lots of prospective buyers, particularly in the middle market segment, that are seeking to allocate a dearth of capital in income-producing assets," McAuliffe said.

> "I wouldn't be surprised if in a couple of years, we look back and say that 2015 and 2016 were the peak years of this latest cycle."
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> Jay Olshonsky,
> President, NAI Global

He defines middle market as deals ranging in size from $30 million to $100 million. Both supply of deals and active buyers in this segment are more abundant than in the over $100 million threshold.

The activity in this segment is being driven by yield—a yield that on cash leveraged deals is very attractive when compared to alternative investment choices.

One shift, however, is a decline in the number of bidders on most deals today versus 12 to 18 months ago, McAuliffe said. In the past, it wasn't uncommon for many offerings to have 10 to 15 active bidders but that level of bidding has fallen off.

Olshonsky agreed. "I wouldn't be surprised if in a couple of years, we look back and say that 2015 and 2016 were the peak years of this latest cycle," he said. "To use a baseball expression, I think we are in the seventh or eighth inning."

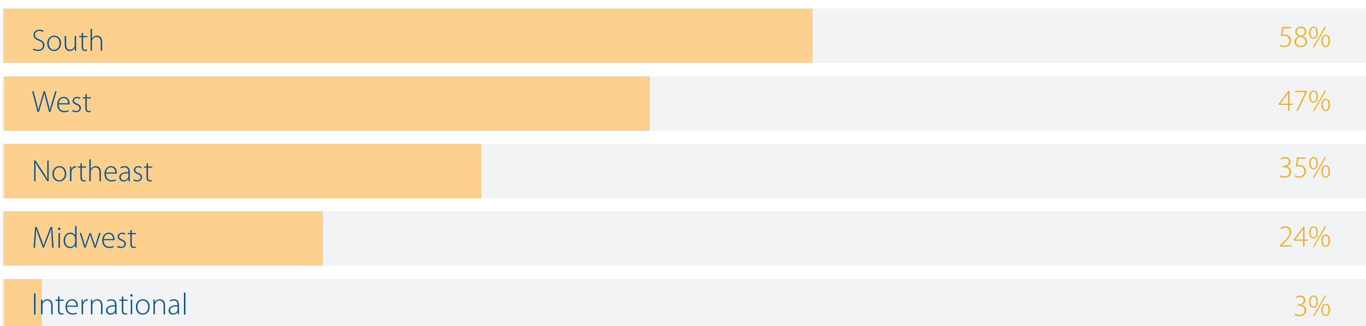
Based on the reaction from clients and potential sellers, Olshonsky believes it could be a slow and cautious opening start to the new year as investors wait to see how the markets—both financial and real estate—play out. "And then people will respond accordingly," he added.

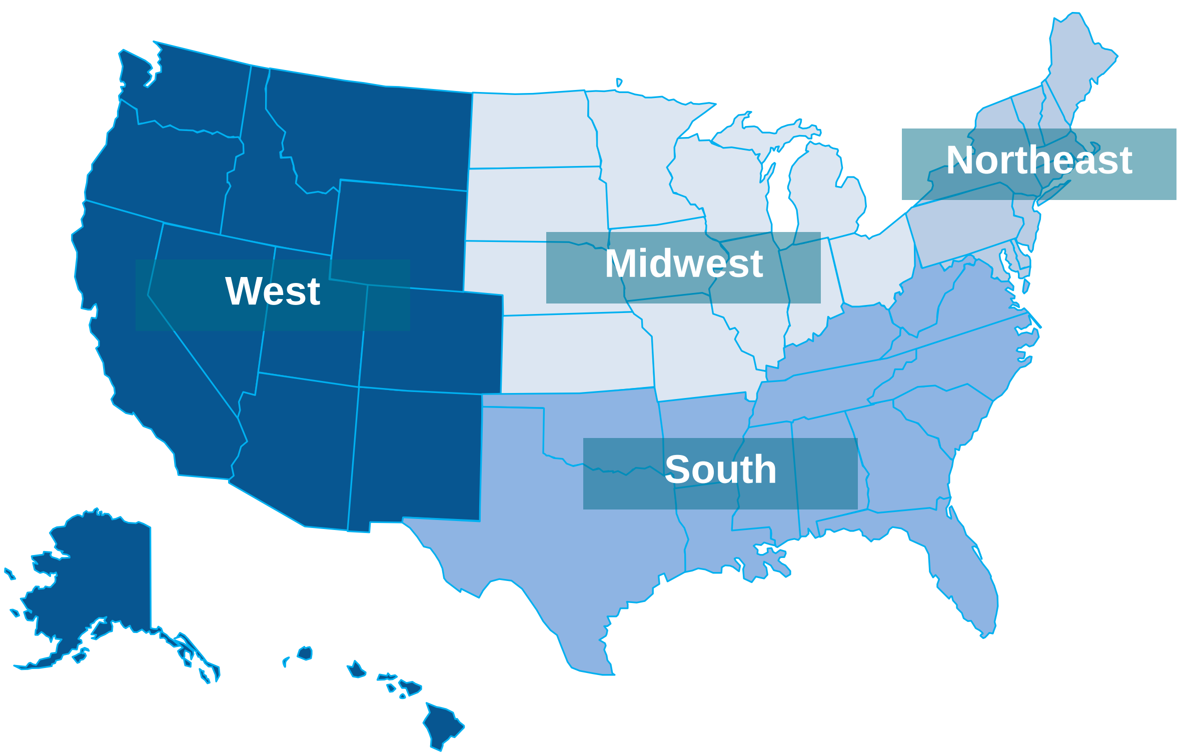
Regional Interest: The South Wins This Battle

The geographic area most sought after by those principals who called themselves "buyers" (buyers as well as buyers trending toward those holding) was the south, a selection made by 63.8 percent. RCM listed four geographic areas: South, West, Northeast and Midwest. In contrast, the Midwest ranked the lowest with only 27.7 percent of buyers focusing there. The West and Northeast were the second most popular geographic areas at 47.6 percent and 39.3 percent, respectively.

Almost half—approximately 47 percent—of buyers are looking at opportunities in at least two geographic regions; with 11 percent considering three regions and 10 percent considering all four regions.

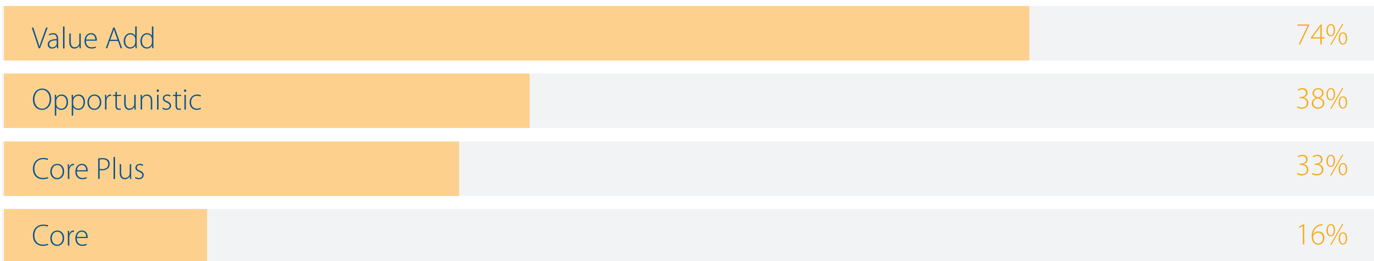
Olshonsky isn't surprised that investors prefer the West Coast and the South, particularly over the Midwest. He observed that the West Coast and the whole state of Texas, with the exception of Houston, remain hot because of job growth and creation. That is in contrast to the industrial Midwest, which is still hemorrhaging jobs. "Detroit and Dayton are not coming back because of manufacturing," he said.





Value-Add Still at Play

Almost 75 percent of all respondents considered their investment objective as value add—the ability to enhance value through renovation, repositioning and re-leasing programs. The next most popular investment objective, at 38 percent, was opportunistic. Only 16 percent listed core properties as their objective and double that number, 33 percent, considered their objective core plus.



Some Movement Back to Core

As with other elements of real estate and investing, investment objectives can also be cyclical. For example, according to McAuliffe, since 2014 and 2015 the pricing of "core" assets has become increasingly competitive, which impacted yields and pushed some investors to a value-add investment profile. That move was accelerated, perhaps, by the sheer volume of value-add options. Ultimately, though, with an increasing number of investors seeking these opportunities, the value-add landscape has become more competitive. As with all good cycles, the market is now beginning to shift back to core opportunities.

Jon Winick, CEO of Clark Street Capital, is not surprised by the concept that more investors are or will be returning to core and core plus opportunities instead of continuing to pursue value-added investments. "There comes a point in time when the return premium for value-added investments isn't worth the effort it takes to achieve the return," Winick said.

He said it is similar to those who are returning to traditional apartment investing instead of student housing opportunities because the management operations of student housing can be so much more intense. Some people don't want the hassles anymore.

Olshonsky attributes a potential shift to core and core plus properties, from value-add, to the transition of opportunities now available. He said that it makes sense that as value add opportunities, and problems, are fixed and become stabilized, they may become attractive to core buyers.

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Jon Winick,
CEO, Clark Street Capital

Little Interest in Rate Hikes

RCM survey participants were asked how a proposed or potential interest rate hike would impact their outlook for acquiring properties. Perhaps in part because rates continue to be at historic lows, 54 percent of those surveyed said it would make no difference.

When the respondents were classified as either buyers or sellers, a slightly larger amount (56.3 percent) said a rate hike would have no impact, whereas 50.5 percent of sellers expressed no difference. While 4 percent said a proposed or potential rate hike would make them more inclined to sell, 11.4 percent of sellers said they would be more inclined to sell.

US Economy More Concerning Than Election

Survey participants were asked to identify which events/issues were influencing their position and a potential change. Well over half, 56 percent, cited general concern for the U.S. economy. More than one third, 34 percent, specifically cited the U.S. interest rate climate, while approximately 19 percent cited concerns over the U.S. election. Also, 20 percent cited a variety of "other" reasons as influencing their decision and 12 percent cited foreign events such as Brexit and/or economic conditions in China.

Although the results of the RCM survey don't point to a slowdown, investment executives point to questions in the marketplace — based on both the political and economic climate. What effect will the Trump presidency have on the rate of economic growth, for example? "On a relative basis the level of growth in real estate values is not as positive. There is a cautious approach that is prevailing," McAuliffe said. "The big question being asked is 'have we reached peak values?'"

Outlook is Full Steam Ahead; Staying in the Game!

More than 40 percent of survey participants reported that their strategy had not changed since the beginning of the year. The respondents that consider themselves to be less of a buyer or more of a buyer are almost equal at 22 percent and 20 percent, respectively. Fourteen percent said they are more of a seller now than at the beginning of the year and only one percent are less of a seller today.

For many, investing in real estate reflects an overall portfolio investment strategy. Allocations into real estate investments remains strong and very positive. An overarching theme is that sitting on the sidelines is the least probable of potential investment strategies.

Winick expects that the financial lift that has been seen since the election will "trickle down" to real estate. "There was a lot of uncertainty until the election," he said. "Then people started transacting; people are deploying a lot of capital into the markets. I think we'll see a stepping up of real estate investment activity soon."

McAuliffe and his colleagues don't see a year-end push that is any more or less than what is normal. "In the end it will still be a very robust year—a consistent year; people have business plans and investment objectives to meet," he added.

There isn't a great sense of urgency. If anything, the election caused a cautious, wait-and-see approach. This is similar, McAuliffe notes, to 2013 when there was a sharp, nearly 95 basis point increase in interest rates. There was a short-lived pause in the market to see what would happen. Would interest rates climb further? How would pricing be impacted? Once people got comfortable, in 30-45 days, it was business as usual.

In looking ahead to 2017 and beyond, Winick pointed to the prospects of a significant infrastructure spending plan that is expected as being a significant catalyst for commercial real estate. "The numbers that the Federal government can deploy can move the needle fast," he said. "Infrastructure spending will have positive implications for real estate investment activity."

Olshonsky is more cautionary than McAuliffe and Winick, citing the great changes that have taken place over the last 12 months, including interest rates and the elections in the US and the UK. He is particularly cautious when looking at the horizon for those with short-term hold strategies. He expects there will be a slowdown in activity in 2018 and 2019. "If you have to sell in 2018 and 2019, you might be in the teeth of the storm," he said.

Olshonsky did say that in the near term, "it's a wonderful time to be a seller", citing the fact that "since 2009 pricing has gone straight up."

To use a gambling phrase, "It may be time to take money off the table."

That philosophy translates into opportunities for those who remain in buy mode. "Good real estate is good real estate," Olshonsky said. "If you can find it and you have a long-term hold, do it. Buy it and forget about it until the next cycle."

The RCM survey participants represented a wide cross section of principal investors, many of whom fit into multiple categories, including:

- Private investor, 41 percent
- Developer, 39 percent
- Private partnership, 25 percent
- Investment syndicator/investment manager, 21 percent
- Institutional investor, 12 percent
- Family fund manager, 10 percent
- REIT, 5 percent

Conclusion

"The age old axiom, 'real estate is a cyclical business' remains as true today as ever before," said Tina Lichens, Chief Operating Officer, Real Capital Markets. "For the last five to seven years the industry has participated in a significant run that started with investors identifying and executing opportunities based on their specific strategies. The RCM Investor Sentiment Survey concludes that opportunities will continue to exist, even if at a modified pace."

In fact, the cyclical or opportunistic nature of real estate often leads to a great transformation. For example, over the course of the last decade or more, RCM and the industry have witnessed the evolution and/or emergence of real estate specialty sectors including student housing, senior housing, medical office buildings and self-storage.

A significant shift has taken place over the last number of years for these so-called "niche" properties. Over time, niche properties have become elevated to the point that they no longer can truly be considered a niche. While they may not be among the most favored of asset classes—the traditional types that include multifamily, office, retail and industrial—they are now significant categories that create significant opportunities.

About Real Capital Markets:

Founded in 1999, Real Capital Markets (RCM) is the global marketplace for buying and selling commercial real estate. RCM's marketing, transaction management, and business intelligence solutions streamline the entire commercial real estate sales and marketing process for buyers, sellers, and brokers. From property marketing and due diligence, to bidding and closing, RCM increases the speed, exposure, and security of property and notes sales.

To date, the Company has executed approximately 45,000 assignments with total consideration in excess of $1.7 trillion. Over 50% of all U.S. commercial assets sold, over $10 million, are brought to market using Real Capital Markets' online marketplace annually.

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