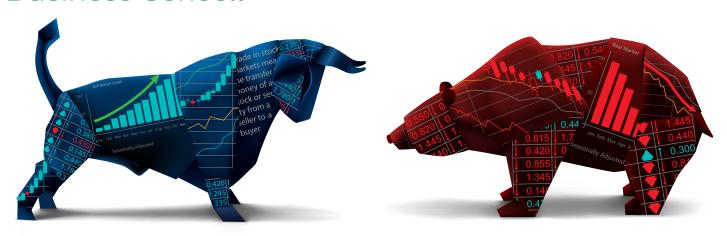
2016 REAL ESTATE CAPITAL MARKETS CONFERENCE:

TOP 10 TAKEAWAYS (BULLISH AND BEARISH)

The real estate world unofficially convened at the 9th Annual Real Estate Capital Markets Conference hosted by Goodwin Procter and Columbia Business School.



The speakers and guests, which included real estate fund managers, investment bankers, public REIT executives and academics, were in turns both bullish and bearish on the near-term future of U.S. real estate. We are pleased to present this "top 10" list of the primary factors cited at the conference as likely to influence the value of U.S. real estate in the near term:

PUBLIC MARKETS LEAD, PRIVATE MARKETS
 FOLLOW (Bearish) Public real estate pricing,
 at least from a directional standpoint, tends to
 foreshadow private market real estate pricing.
 So with the equity capitalization of many REITs
 trading at prices well below the net asset value
 of their underlying real estate, private real estate
 valuations may need to pull back.

2. NON-U.S. INVESTORS STILL LOVE AMERICA

(Bullish) With low yields persisting in other parts of the developed world (such as Germany, Japan and Sweden), non-U.S. investors continue to view U.S. real estate as an attractive risk-adjusted investment. Additionally, as export driven countries continue to devalue their currencies, dollar-denominated assets are becoming increasingly important to preserving capital. Similarly, non-U.S. investors from other countries, which are suffering from social, political or economic upheaval, continue to see U.S. real estate as the ultimate safe haven. Lastly, recent changes to U.S. tax law adopted under the PATH Act (see here) provide new tax relief for certain non-U.S. buyers upon the disposition of U.S. real property interests. In

- light of the above, non-U.S. institutional demand for U.S. real estate, currently estimated to be around 25% of the total institutional capital allocated to U.S. real estate, should continue to be strong for the foreseeable future.
- 3. LISTEN TO THE BOND MARKET (Bearish) The bond market, specifically for non-investment grade debt, is considered a reliable predictor of future default rates, which are themselves an indication of the general health of the economy. Certain segments of the non-investment grade bond market are trading at yields comparable to what was present during the Great Recession. This implies that the bond market is spooked about the ability of many companies to pay their debts, which may be a sign that the health of the economy is in jeopardy. If true, this obviously would put pressure on real estate values.
- 5. THE GREAT WALL IS CRUMBLING (Bearish) Over the last ten years, China has had an insatiable demand for commodities as it developed its infrastructure and acted as the world's factory. With China's demand for commodities rapidly slowing, commodity exporting countries like Canada, Australia, and Brazil are being negatively impacted. China itself is struggling to replace its economic reliance on exports as it transitions to more of a service based economy, further compounding the global slowdown in demand for goods and services. As the second largest economy in the world, any significant slow-down in China could reverberate globally, acting as a strong head-wind to global wealth creation and ultimately hampering investment in U.S. real estate.





- 4. FOLLOW THE MONEY (Bullish) 2015 was another successful year for real estate private fund capital raising. Despite capital being concentrated in the hands of fewer managers, there was no significant dip in the amount of capital raised (\$107 billion in 2015 vs. approximately \$108 billion in 2014 a change of about 1%). With fees and carried interest ultimately contingent on allocating committed capital, fund managers will continue to deploy massive amounts of real estate capital, sustaining real estate asset demand and bolstering pricing.
- 6. LET'S GET REAL (Bullish) Real estate is becoming more of a preferred asset class as investors place greater emphasis on cash flows over capital appreciation. Reasons for this include significant volatility in the pricing of more traditional capital assets like equities, a desire to match cash flows with long-term liabilities and a preference for tangible assets. In addition, real estate was recently added as a dedicated sector classification under Global Industry Classification Standard (GICS), decoupling from financials and representing real estate as an independent asset class.



These factors should result in increased investor allocations to real estate.

- 7. REAL ESTATE IS EXPENSIVE (Bearish) Capital flows to the best risk-adjusted return and real estate asset prices, as compared to non-real estate stocks and bonds, are at historically high levels (e.g., cap rates are at or near all-time lows and REIT stocks overall are still priced above historical averages, while forward equity P/E multiples for the S&P 500 are trading around their 15 year average). Consequently, investors are likely to sell real estate and invest in assets with better risk-return profiles or rebalance their portfolios to stay within pre-determined asset allocation limits, resulting in increased selling and pricing pressure.
- 8. APARTMENTS ARE WINNERS (Bullish) More people are choosing to rent apartments rather than purchase, and for longer periods of time. This increase in renter demand is due to increased delays in family formation (home hunters tend to buy only after they get married

and consider having kids), as well as the dismantling, courtesy of the Great Recession, of the conventional wisdom that home ownership results in higher savings. Home ownership in the United States is actually at its lowest level since the mid-1970s. These demographic fundamentals should support strong demand in the apartment property market.

9. THE HOTEL PEAK IS FAR BEHIND US (Bearish)
Since the trough of the Great Recession, a
significant supply of rooms has been added to
the hotel sector and, when coupled with the
proliferation of online rental platforms such
as Airbnb, the availability of accommodation
supply has only increased. On the demand
side, currency appreciation and stagnating
domestic wages have negatively impacted both
travel to and within the United States. Although
hotel REITs were down 27.5 percent in 2015,
supply and demand fundamentals are likely to
continue to negatively impact hotel pricing and
profitability for the foreseeable future.

10. RISING INTERESTS RATES: THIS TIME WILL BE DIFFERENT (Bearish) The general sentiment is that interest rates will increase, resulting in higher real estate capitalization rates. Although interest rates tend to rise in times of economic growth, this time could be different due to

insufficient income growth to offset increased capitalization rates, resulting in downward pressure on real estate.

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The annual conference convened on January 29, 2016.

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