RCLCO

THE ADVISORY

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Sequestration—What Me, Worry?

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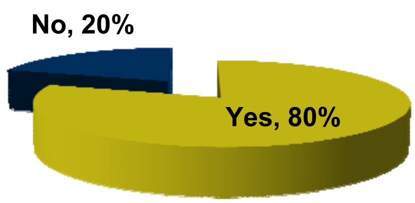
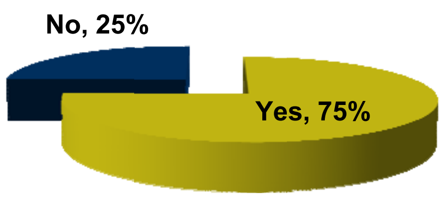
Two months before the presidential election, and a full quarter before Congress kicked the latest fiscal cliff and sequestration can down the road until March of this year, RCLCO asked industry professionals if they were concerned about potential negative consequences for real estate associated with the dysfunction happening in Washington. In 3Q 2012, a full 80% of real estate market participants indicated they were indeed concerned—and 20% indicated that it was a non-issue. In the same survey, 75% indicated that they were concerned about the negative impact that offshore economic issues (e.g., Eurozone meltdown, China slowdown, etc.) could have on real estate here in the U.S.

3Q 2012
Q: Are you concerned about potential negative consequences for real estate associated with the Fiscal Cliff/Sequestration?



3Q 2012
Q: Are you concerned about potential negative consequences for real estate associated with Offshore Economic Issues?



SOURCE: RCLCO

Fast forward to 1Q 2013, and the percentage of real estate professionals who indicate they remain concerned about domestic budgetary and offshore economic activities has certainly declined, but remains at relatively elevated levels. Just over 60% of respondents to the RCLCO 1Q 2013 National Real Estate Sentiment Survey indicated they are concerned about the fiscal cliff/sequestration, and a slight majority, 55%, indicated they are concerned about offshore economic issues.

Curiously, when asked “are you doing anything to insulate yourself or your company from potential risks associated with either the Fiscal Cliff/Sequestration or Offshore Economic Activities,” the majority of respondents answered “no” (Fiscal Cliff: 53% no; Offshore Activity: 64% no). Beware the Ides of March, or sometime soon thereafter…

1Q 2013
Q: Are you concerned about potential negative consequences for real estate associated with the Fiscal Cliff/Sequestration?

1Q 2013
Q: Are you concerned about potential negative consequences for real estate associated with Offshore Economic Issues?

SOURCE: RCLCO

Increasing Moderately

Irrespective of any fiscal cliff or Eurozone/China worries, the majority of real estate market participants anticipate that key economic and real estate market indicators will either stay the same, or improve moderately over the next six to 12 months. Few, if any, respondents expect market fundamentals to deteriorate. At the same time, few expect the markets to improve at a rapid pace over the next year.

Q: What do you expect to happen with the following economic and real estate market indicators over the next six to 12 months?

Answer Options	5 Increase Significantly	4 Increase Moderately	3 Stay the Same	2 Decrease Moderately	1 Decrease Significantly	Avg.
Interest Rates	2	94	117	1	0	3.5
Cap Rates	0	66	114	27	0	3.2
Institutional Capital Flows to Real Estate	14	117	66	6	1	3.7
Home Values	12	180	21	1	0	3.9
Homeownership Rate	3	128	68	14	0	3.6
Office Rents	2	69	125	11	3	3.3
Retail Rents	1	68	124	13	2	3.3
Apartment Rents	17	112	61	20	0	3.6
Industrial Rents	3	75	106	4	5	3.3
Land Prices	18	129	58	7	1	3.7
Hotel Room Rates	5	110	81	4	2	3.6
Interest Rates	1%	44%	55%	0%	0%	
Cap Rates	0%	32%	55%	13%	0%	
Institutional Capital Flows to Real Estate	7%	57%	32%	3%	0%	
Home Values	6%	84%	10%	0%	0%	
Homeownership Rate	1%	60%	32%	7%	0%	
Office Rents	1%	33%	60%	5%	1%	
Retail Rents	0%	33%	60%	6%	1%	
Apartment Rents	8%	53%	29%	10%	0%	
Industrial Rents	2%	39%	55%	2%	3%	
Land Prices	8%	61%	27%	3%	0%	
Hotel Room Rates	2%	54%	40%	2%	1%	

SOURCE: RCLCO

The consensus view is that interest rates and cap rates will remain steady over the next six to 12 months. Most respondents believe that office, retail, and industrial rents will also hold steady, although nearly one-third expect these rents to increase moderately. Land prices, homeownership rates, and home values are forecasted to increase over the coming year, as are hotel room rates and apartment rents. These survey results are entirely consistent with the expectation that most real estate industry sectors have turned the corner and are poised for positive momentum and growth in 2013 and beyond.

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