

CREFC Board of Governors Sentiment Index Survey

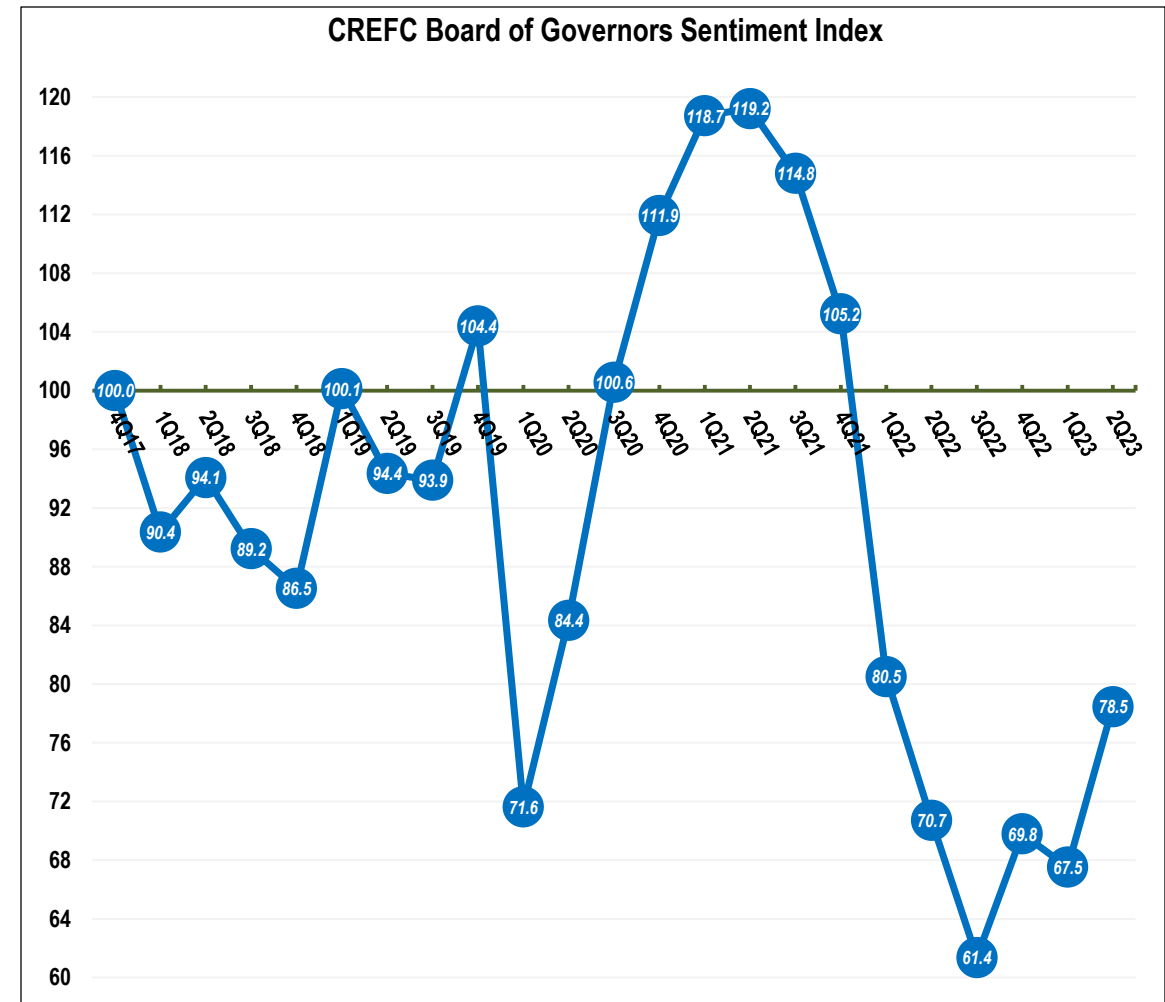
2Q 2023



CRE Finance Council®
The Voice of Commercial Real Estate Finance

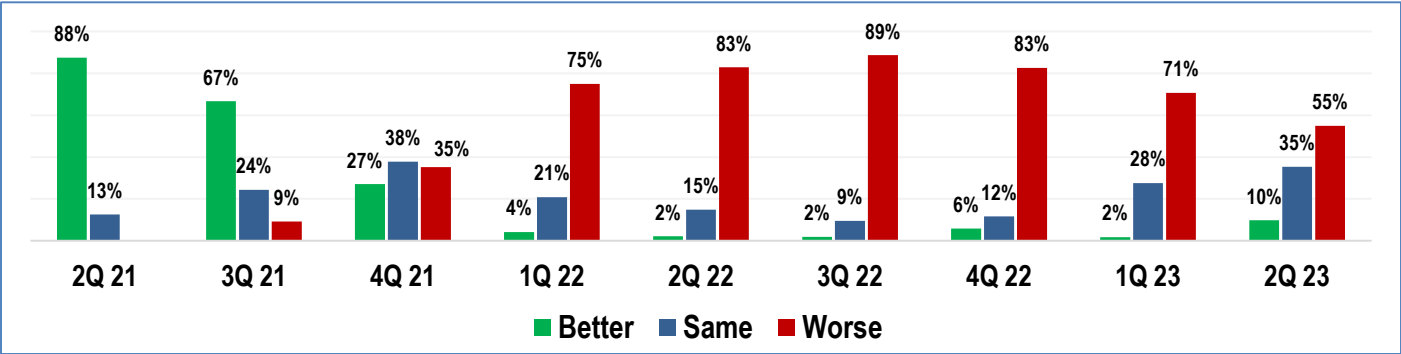
CREFC Second-Quarter 2023 BOG Sentiment Index Survey

- From 5/25/23 – 6/7/23, CREFC conducted its 2Q 2023 CREFC BOG Sentiment Index survey on the overall state of the CRE finance markets (administered to the BOG since 4Q 2017)
 - The survey consists of nine core questions, as well as additional topical questions (not factored into the BOG Index)
 - **88% of the BOG responded to the survey**
 - The BOG Index aims to gauge quarter-to-quarter shifts in market conditions and outlook. Responses are equally weighted, and the sums of those weighted responses are used to create a single index, the results of which are shown in the adjacent chart
- **Key Survey Results:**
 - **The 2Q 2023 Index increased to 78.5, up 16% from 67.5 in the prior quarter.** The overall sentiment for CRE finance businesses showed improvement but remained cautious, with 67% still expressing a negative outlook (down from 83% in the prior quarter).
 - Key areas of concern persisted, including the outlook for mortgage and cap rates and CRE fundamentals

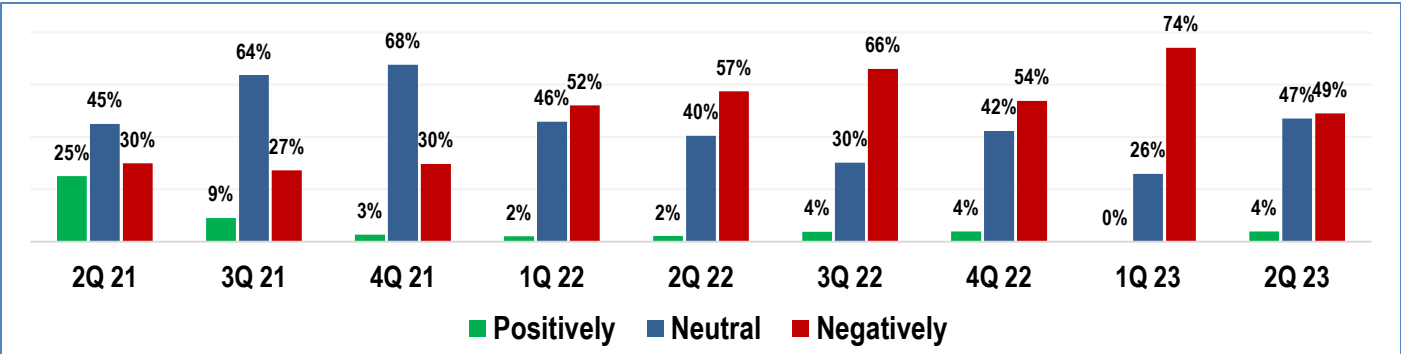


Respondents Slightly Less Down on Economy; More Balanced View on Policy

1. **ECONOMY.** How will the **U.S. economy perform** over the next 12 months as compared to the preceding 12 months?

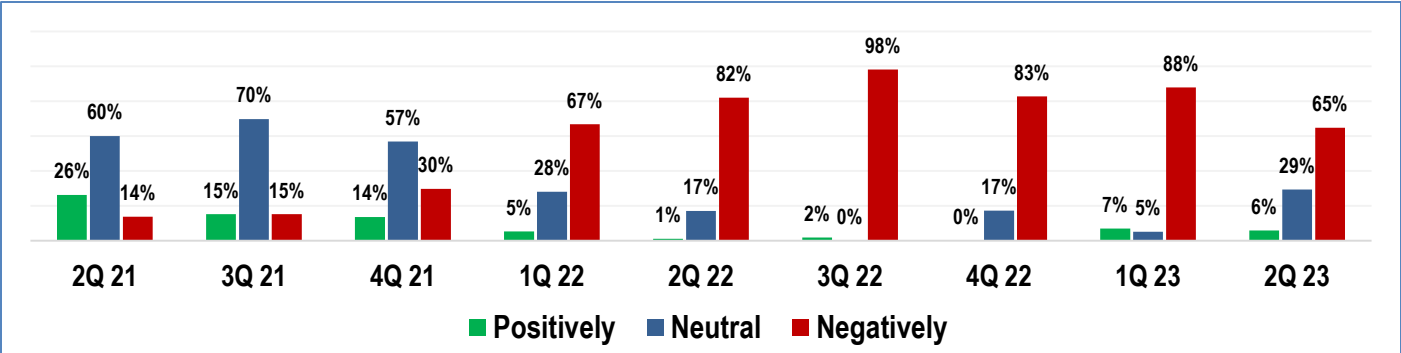


2. **POLICY.** How will **Federal government legislative and regulatory actions** impact CRE finance-related businesses over the next 12 months?

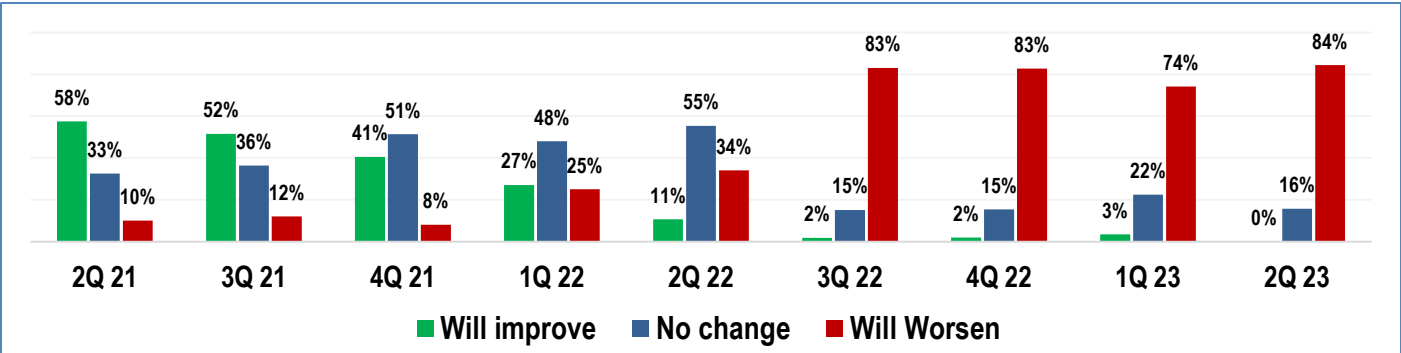


Sentiment on Rates Still Negative; Increased Pessimism on CRE Fundamentals

3. **RATES.** How will **mortgage rates** and **cap rates** impact the performance of all CRE finance-related businesses over the next 12 months?

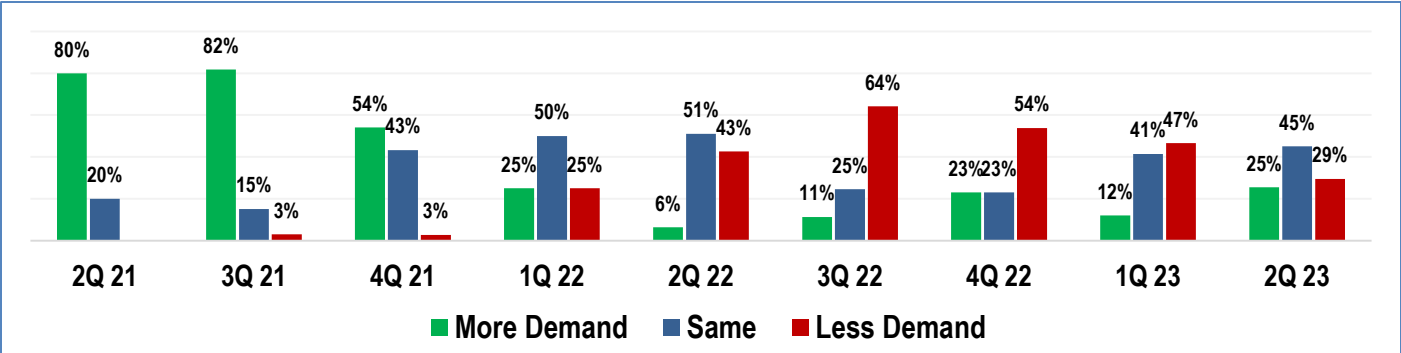


4. **CRE FUNDAMENTALS.** Over the next 12 months, what is your expectation for **CRE fundamentals** (e.g., occupancy, rents, NOI)?

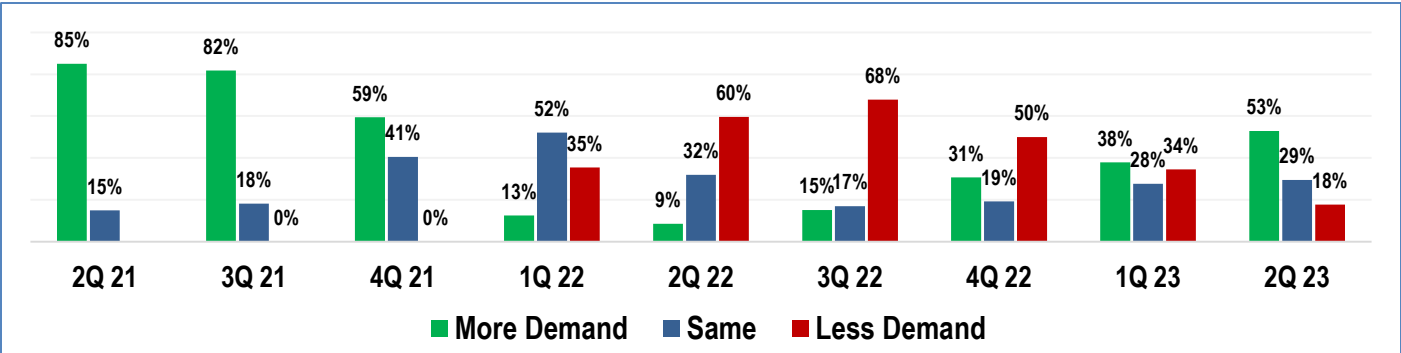


Improving Outlook on Transaction Activity and Financing Demand

5. CRE TRANSACTION ACTIVITY. How do you expect investor demand for CRE/multifamily assets to change in the next 12 months compared to last year?

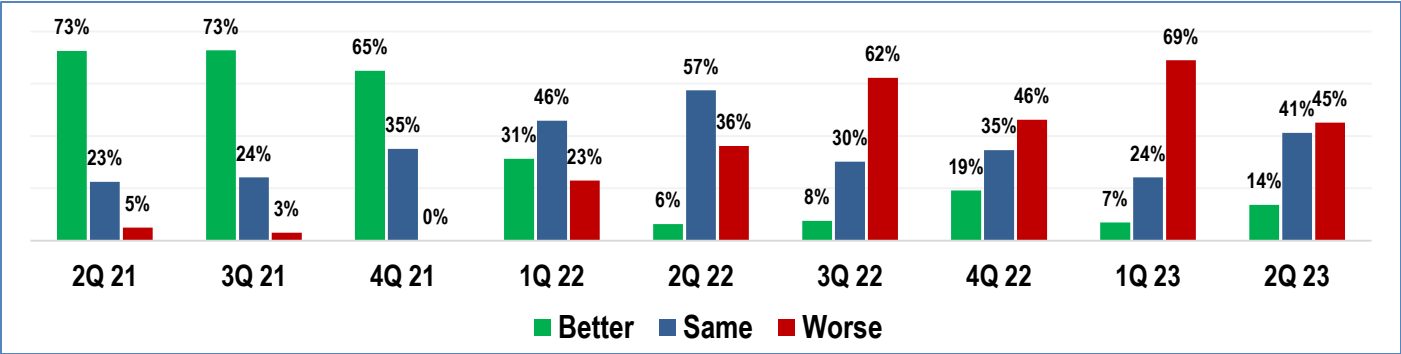


6. FINANCING DEMAND. How do you expect borrower demand for CRE/multifamily loans/financing to change in the next 12 months compared to last year?

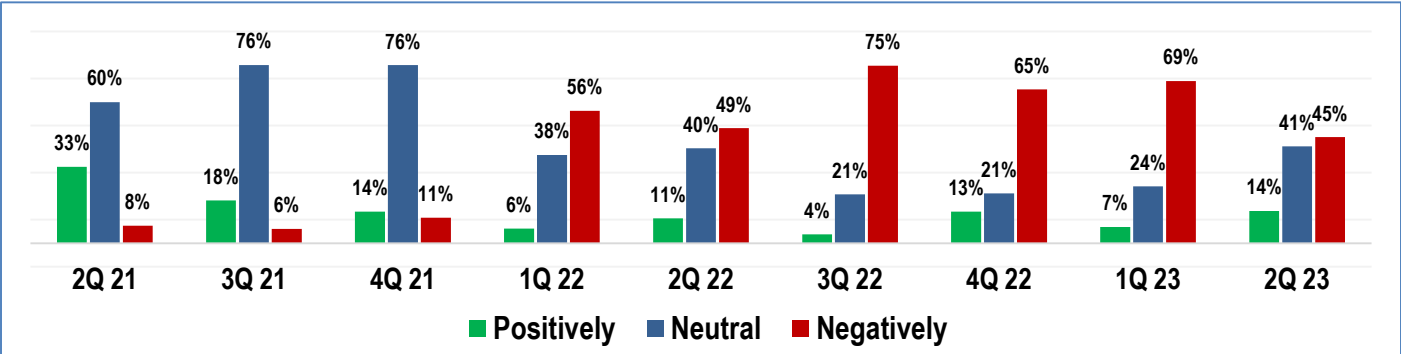


Ongoing Hurdles Expected in Accessing Capital; CMBS Spreads to Remain Challenging

7. **LIQUIDITY.** Over the next 12 months, what is your expectation for **liquidity in the CRE debt capital markets?**

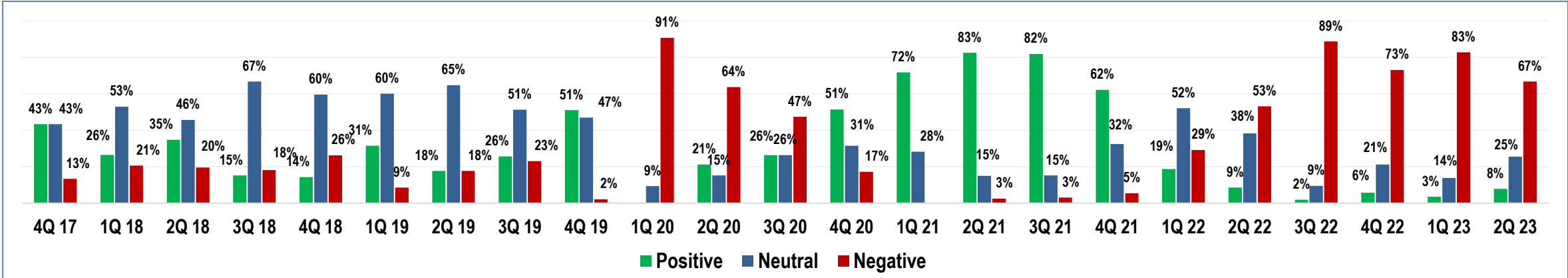


8. **CMBS CAPITAL MARKETS.** How will expected **trends in CMBS and CRE CLO demand/spreads** impact the performance of all CRE finance-related businesses over the next 12 months?



Overall Sentiment for CRE Finance Businesses Stays Negative

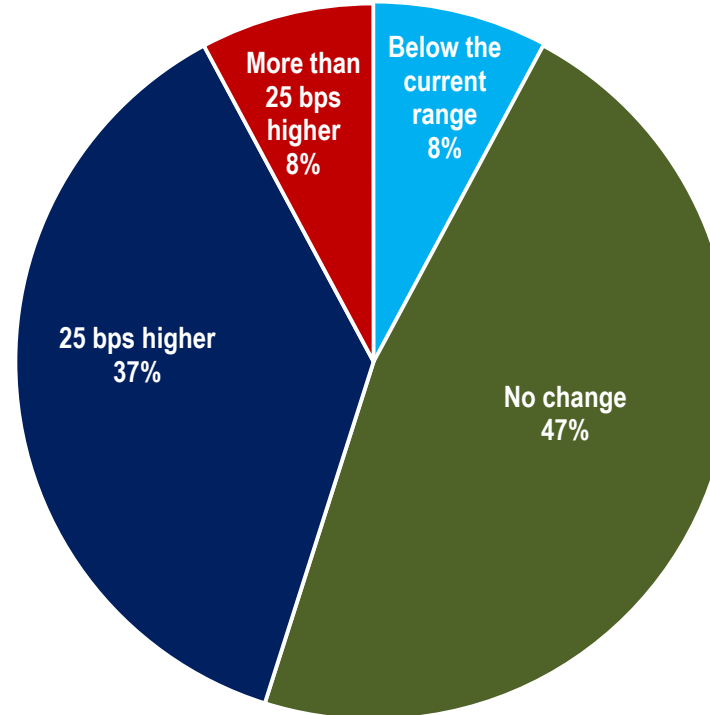
9. INDUSTRY SENTIMENT. What is your overall sentiment for all CRE finance businesses over the next 12 months?



ADDITIONAL TOPICAL QUESTIONS

1. The FOMC's current target rate is 5.00% - 5.25% with the next FOMC meeting taking place on June 13-14. Whereas May's FOMC suggested a Fed pause was likely for June, stickiness in key inflation components, continued strength in economic activity, solid wage growth, and thus consumer spending have changed the equation. What do you think the Fed's terminal target rate will be by year-end 2023?

BOG Estimate of 2023 Fed Funds Terminal Rate



ADDITIONAL TOPICAL QUESTIONS

2. The Fed's April 2023 Senior Loan Officer Opinion Survey (SLOOS) showed loan demand softened in recent months and lending standards tightened. The shift was especially pronounced for CRE, with 67% of lenders signaling tightened credit standards for non-farm, non-residential CRE loan applications and credit lines, up over nine percentage points from January. Going forward, will credit standards for CRE loans:

BOG Outlook on Lending Standards Going Forward

