2013 Real Estate Industry Outlook Survey

Increased opportunities lead to growing optimism

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Table of Contents

Improved outlook reflects growing economy

Commercial real estate executives are becoming increasingly optimistic; the results of our 2013 Real Estate Industry Outlook survey show that positive trends are taking hold and building momentum throughout the industry. In fact, nearly three-quarters of respondents expect the U.S. economy to improve over the next year, and they are looking to geographic expansion to provide increased revenues.

The industry is already experiencing the effects of a steady, albeit slow, economic recovery, with increasing revenues, low interest rates, and the continued availability of affordable financing. Multifamily development is expected to continue its upward climb followed by increases in development in the retail and hospitality sectors. Investors are also likely to continue to play it safe, flocking to Class A assets in primary markets.

Interestingly, M&A does not to appear to be high on the priority list for the industry, but acquisitions of assets and expansion into new markets are expected to drive growth. Rather than focusing only on trying to grow the top U.S. markets, executives say they are entering markets in Latin America and Asia Pacific. Executives say they will also look to the Southwest and the Northeast regions of the United States for key investment opportunities over the next year.

While the overall outlook is improving, fewer distressed assets to acquire, pricing pressures, and rising labor costs could have a negative impact. Meanwhile, political and regulatory uncertainty and the lagging recovery in Europe pose additional challenges, resulting in apprehension over the possibilities of long-term impacts on growth and business models. However, executives believe improving real estate fundamentals and strategic opportunities will help drive revenue growth moving forward.

On behalf of KPMG LLP, I would like to thank those who participated in this survey, and hope the findings are useful to you in addressing market challenges and opportunities. I also welcome the opportunity to discuss our findings and how they will impact your specific business in the year ahead.

Greg Williams
National Sector Leader, Building, Construction and Real Estate
KPMG LLP

Survey highlights

A key focus on market expansion

Propelled by increasing optimism about the overall economy, real estate industry executives believe geographic expansion will be a key focus over the next year. More than half (58 percent) of survey respondents expect their company to increase spending the most on geographic expansion, representing an increase from previous years. Within the U.S., the Southwest and the Northeast offer the top real estate opportunities, while Latin America and Asia Pacific are the international regions identified as having the most potential opportunities.

New development trending up

Multifamily development continues to lead real estate development, as it has in recent years. However, this year's results also reveal expected increases in retail and hospitality development in 2014. This rising trend in new development across asset classes is likely in response to a more optimistic economic outlook and the improved access to financing that is now available for such projects.

Pursuing revenue growth

Acquisitions, improving real estate fundamentals, and geographic expansion are expected to drive revenue growth over the next three years. Meanwhile, while some markets are stabilizing post-recession, more executives still seek safety and security when investing. Survey respondents expect Class A assets in primary markets and development opportunities to be at the top of their investment wish list over the next year.

Regulatory uncertainty remains

When asked to identify the issues posing the biggest threat to business models, 40 percent of executives point to political and regulatory uncertainty as their top concern. Meanwhile, 67 percent of executives say they are only somewhat prepared to manage the impact of public policy and regulatory changes.

Detailed findings

Focusing on geographic expansion

More than half (58 percent) of executives cited geographic expansion as the top area for increased spending—a large increase over the previous two years.

Q: In which areas do you expect your company to increase spending the most over the next year?

	% in 2013	% in 2012	% in 2011
Geographic expansion	58	21	11
Information Technology	34	52	44
Acquisition of a business	23	37	31
Employee compensation and training	18	32	23
Expanding facilities	18	20	22
Advertising and marketing/branding	18	11	17
New products or services	17	19	23
Business model transformation	12	15	13
Green/sustainability initiatives	10	9	16
Research and development	9	5	14
Regulation/control environment	5	7	20
Other	2	5	3

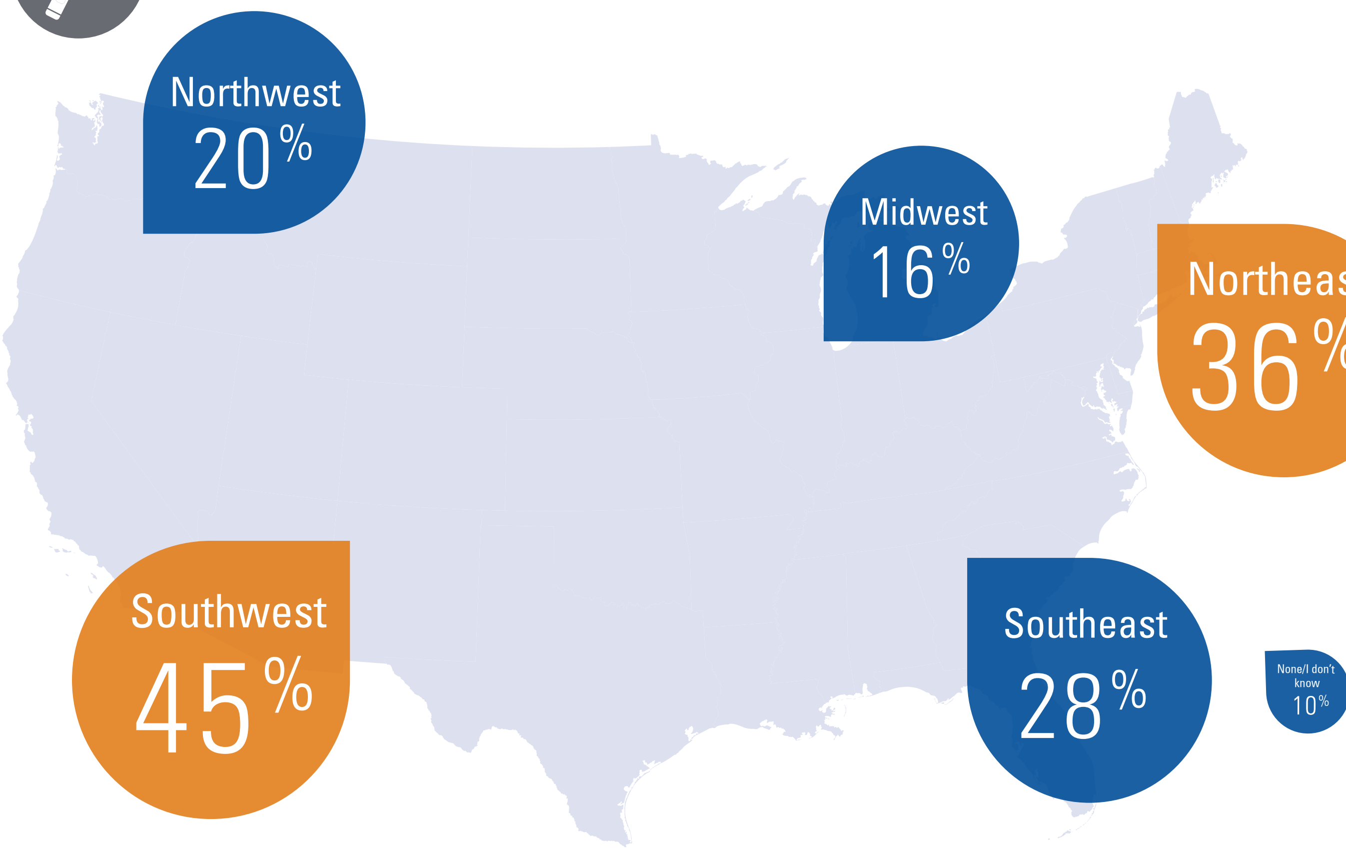
Multiple responses allowed

About one-third (34 percent) expect increased spending on IT, down from the previous two years, but remaining an important investment area.

Location, location, location

In the United States, the industry's greatest interest is in the Southwest (including California), which is experiencing higher job and economic growth that is translating into greater real estate opportunities.

Q: Where are the best real estate investment opportunities in the U.S.?



Multiple responses allowed

The pursuit of more secure investments has also made the Northeast an attractive option.

> *"Market expansion is an important focus for commercial real estate executives as they strive to grow the top line. Domestically, the Southwest and Northeast are attractive markets because they are experiencing higher job and economic growth, and thus offer stronger returns, with property prices in select submarkets within these regions at or above pre-recession levels."*
>
> *— Greg Williams*
> *National Sector Leader, Building, Construction & Real Estate, KPMG LLP*

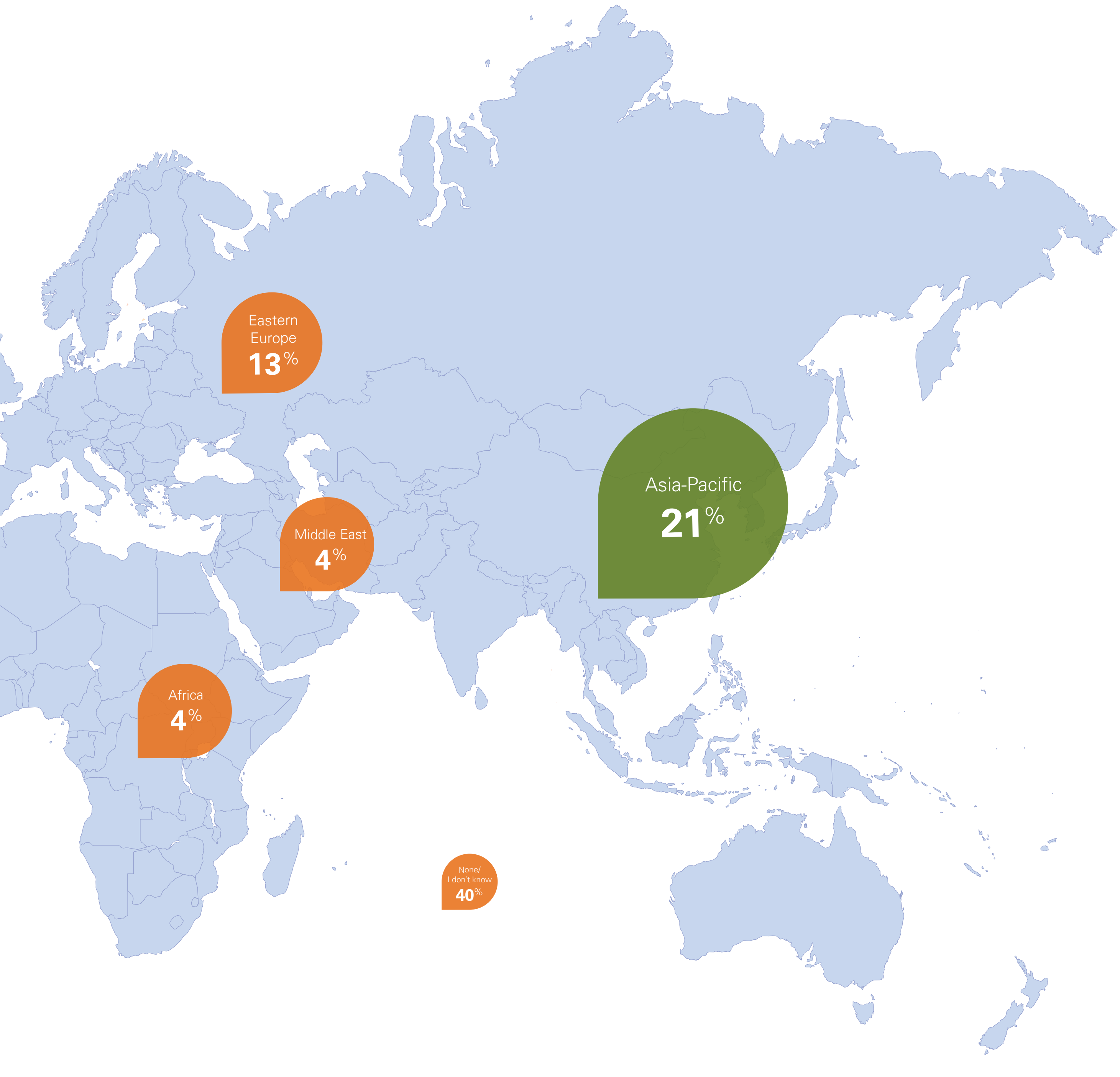
Overseas opportunities

Q: Where are the best real estate investment opportunities outside the U.S.?

Real estate executives also reveal a growing interest in emerging markets, particularly in Latin America and Asia-Pacific.

Their attention to these areas indicates a willingness to search for new markets where demand is strong and the price of assets is appealing.

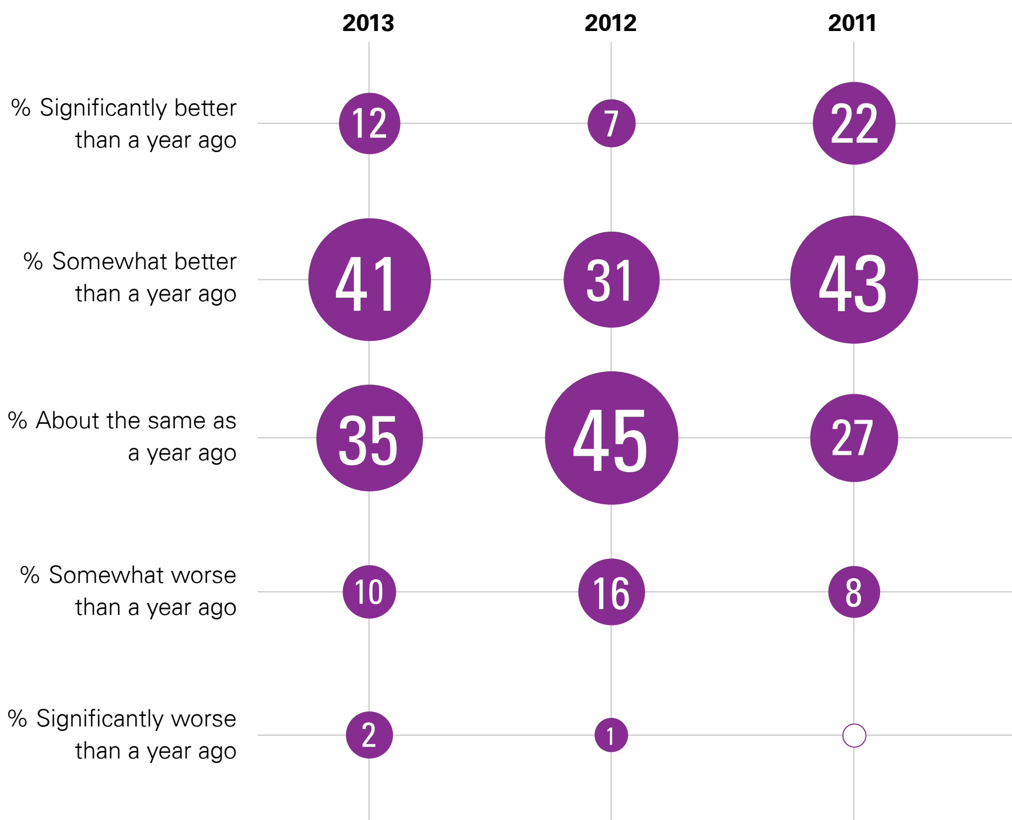
Multiple responses allowed


Eastern Europe
13%
Middle East
4%
Africa
4%
Asia-Pacific
21%
None/
I don't know
40%

Opportunities to invest

More than half (53 percent) of the real estate executives surveyed believe that the opportunities for investment are better than a year ago.

Q: How would you rate the marketplace for investment opportunities?



Meanwhile, 35 percent think they are about the same, and only 12 percent believe there are fewer investment opportunities than in the past year.

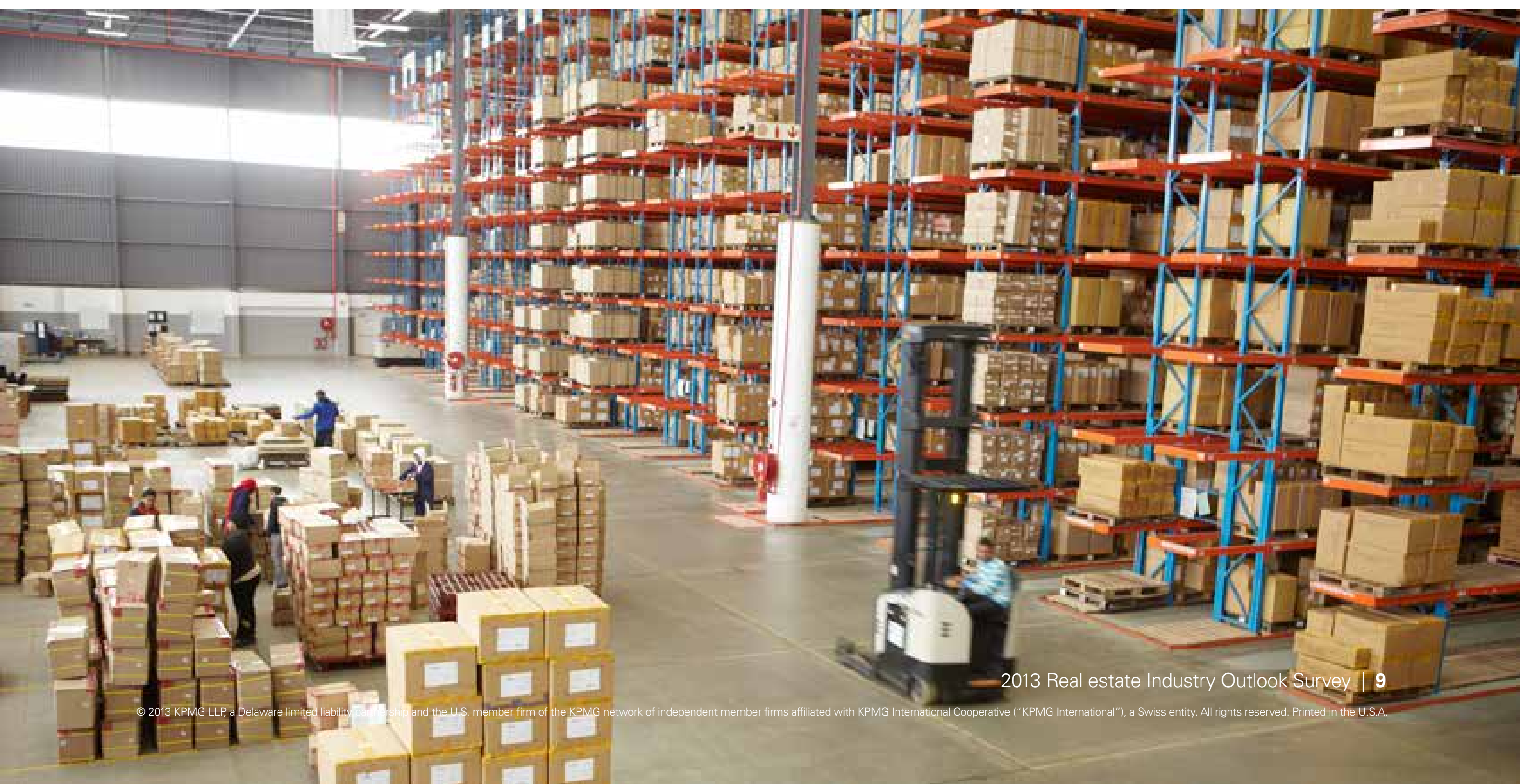
Quality properties available

The United States still has assets for sale, but there are fewer at the attractive prices that commercial real estate firms expect.

Q: As you search for property in which to invest, are you finding quality properties that can deliver sufficient returns?

My organization is finding an ample supply of such properties at reasonable prices	25%
My organization is able to find such properties, but not at reasonable prices	60%
My organization cannot find any such properties, at any price	2%
My organization is not actively seeking investment at this time	13%

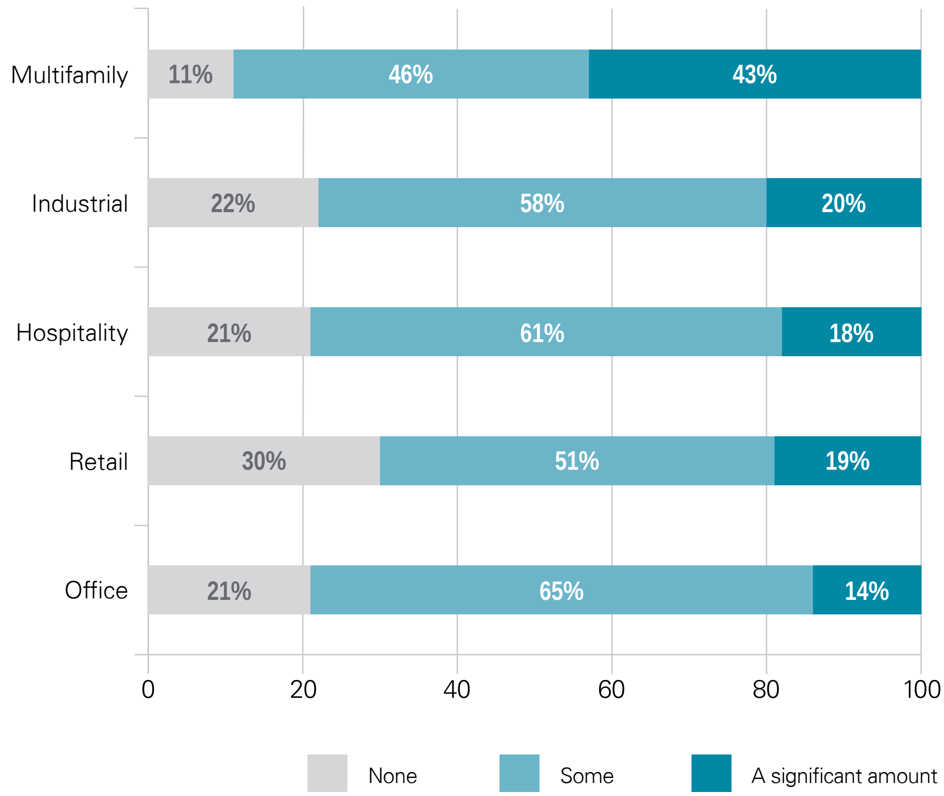
Eighty-five percent of respondents said they were still finding quality properties—but the majority (60 percent) believes prices are too high.



Real estate development

Multifamily was again identified as the top sector for development, as 89 percent of respondents anticipate at least some construction to begin in 2014.

Q: How much new development do you expect to commence in the U.S. in 2014 in each of the following sectors?

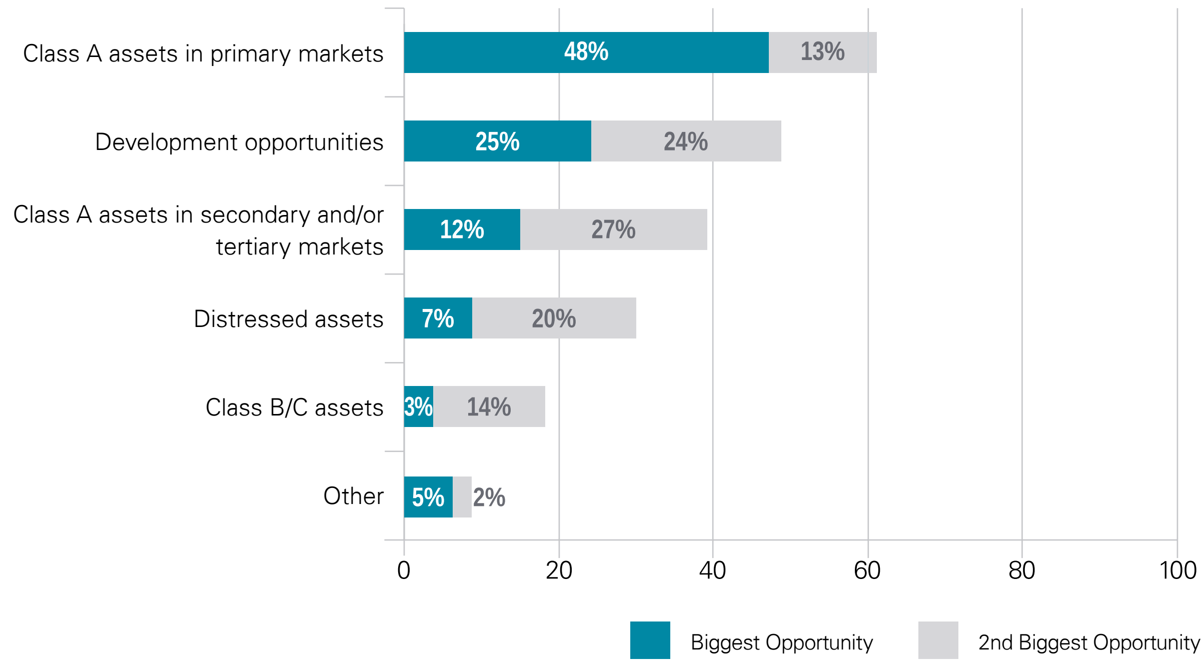


Included in this, 43 percent expect a significant amount of multifamily construction, down from 51 percent in last year's survey.

> *"Multifamily is still the darling, but all sectors are expected to see an increase in new development as access to financing has improved for these projects, and executives are more optimistic about the economy's growth prospects."*
>
> *— Greg Williams*
> *National Sector Leader, Building, Construction & Real Estate, KPMG LLP*

Executives say their companies are pursuing safety and security in their investments as some markets are still stabilizing after the recession.

Q: Which of the following types of assets will you be in the market to acquire/invest in over the next 12 months?



Class A assets in primary markets and development opportunities are the most attractive investments to acquire over the next 12 months, according to survey respondents.

> *"While some markets are still stabilizing post-recession, there's a flight to safety and security, and class A assets in primary markets continue to be the surest bets. In some cases, however, we are seeing fresh approaches such as new REITs forming to address opportunities in the single-family-home rental market. Given that pricing is critical to producing sufficient yields, executives are being really selective as the availability of distressed assets has slowed."*
>
> *— Phil Marra*
> *Northeast practice leader , Real Estate, KPMG LLP*

M&A opportunities

Only slightly more than a third of executives (34 percent) believe their companies will be involved in a merger or acquisition in the coming year, while 41 percent say they have no plans for merger or acquisition activity.

Q: What is the likelihood that your firm will be involved in a merger/acquisition in the next year?

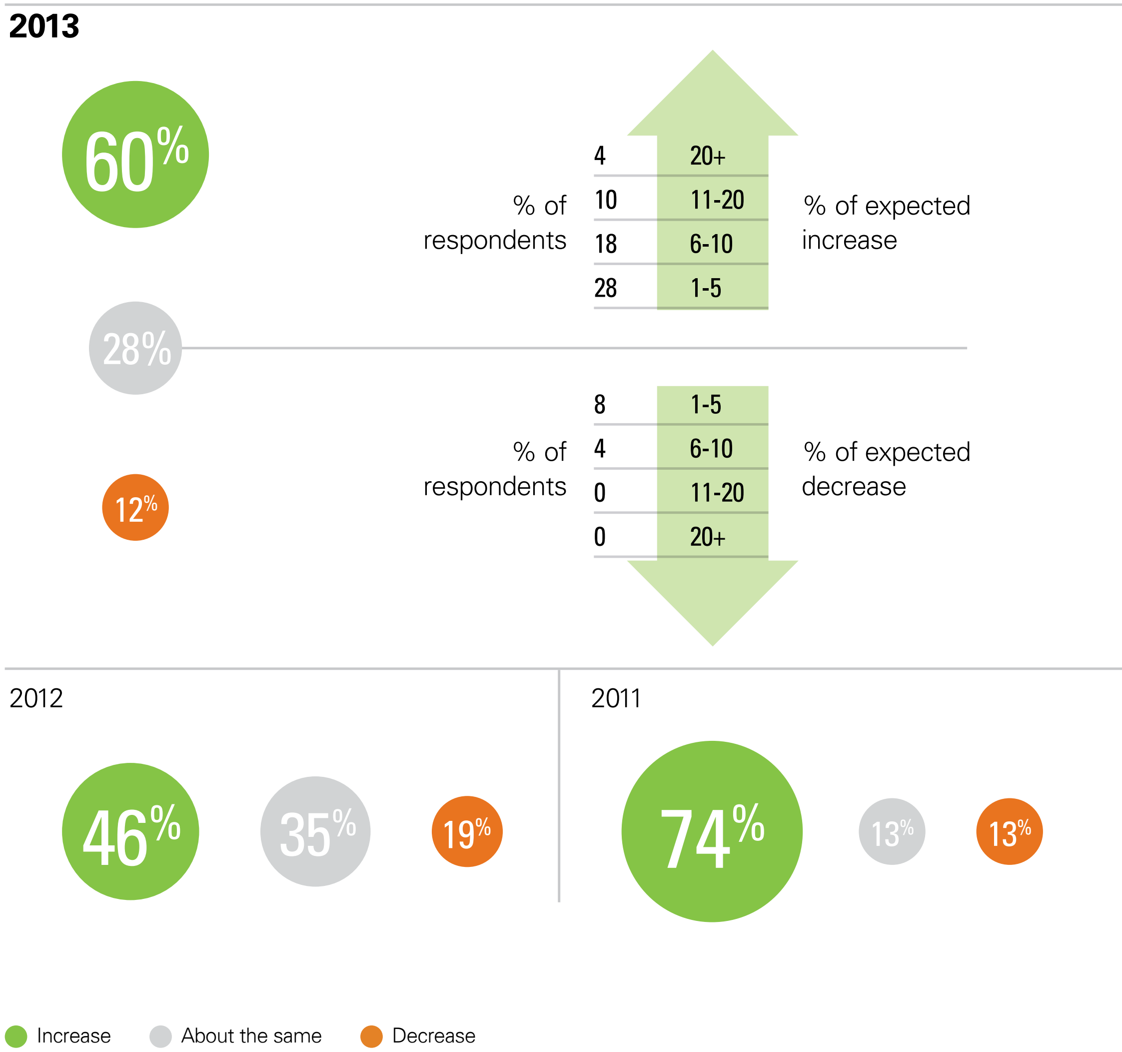
	% in 2013	% in 2012	% in 2011
Very likely (as a buyer)	15	12	45
Somewhat likely (as a buyer)	19	33	20
Very likely (as a seller)	4	3	6
Somewhat likely (as a seller)	4	11	6
Very likely (as a buyer and seller)*	4	–	–
Somewhat likely (as a buyer and seller)*	4	–	–
No plans for M&A activity	41	32	23
Not sure/don't know	9	9	0

Very/Somewhat Likely (as a buyer)
2013: 34% (in the next year)
2012: 45% (in next 2 years)
2011: 65% (in next 2 years)

* Not asked in 2012 and 2011

The outlook for capital spending has improved substantially after a drop in 2012.

Q: What is the outlook for capital spending by your company over the next year?



According to this year's survey, 60 percent of executives expect to increase capital spending over the coming year, up from last year's 46 percent. Again, this seems to reflect the industry's optimism in the recovery as well as the confidence to enter markets with the best opportunities, including emerging economies.

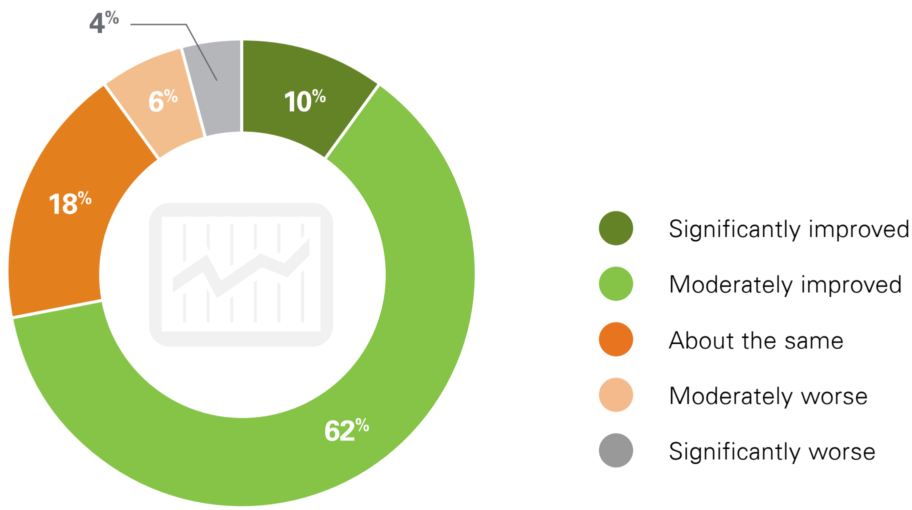
Business conditions

Brighter economic outlook

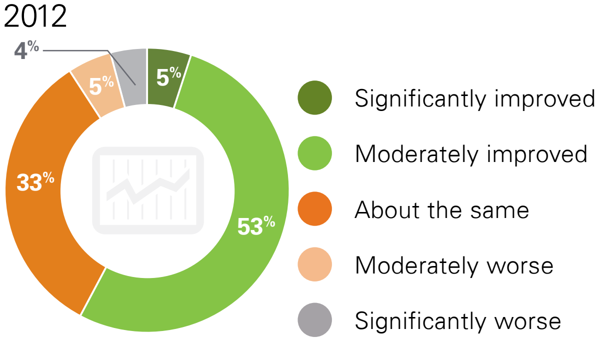
Executives are growing more confident about the recovery, as nearly three-quarters (72 percent) expect the economy to improve over the next year, while only 10 percent expect it to be worse.

Q: A year from now, what are your expectations for the U.S. economy?

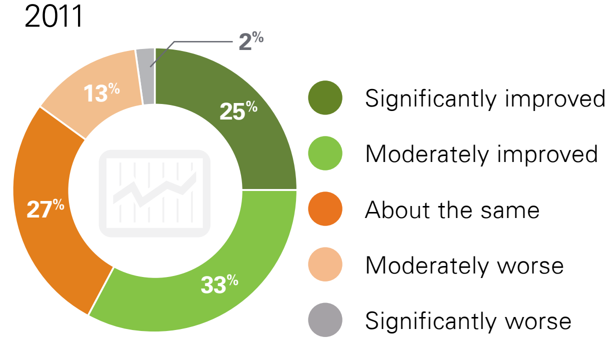
2013



2012



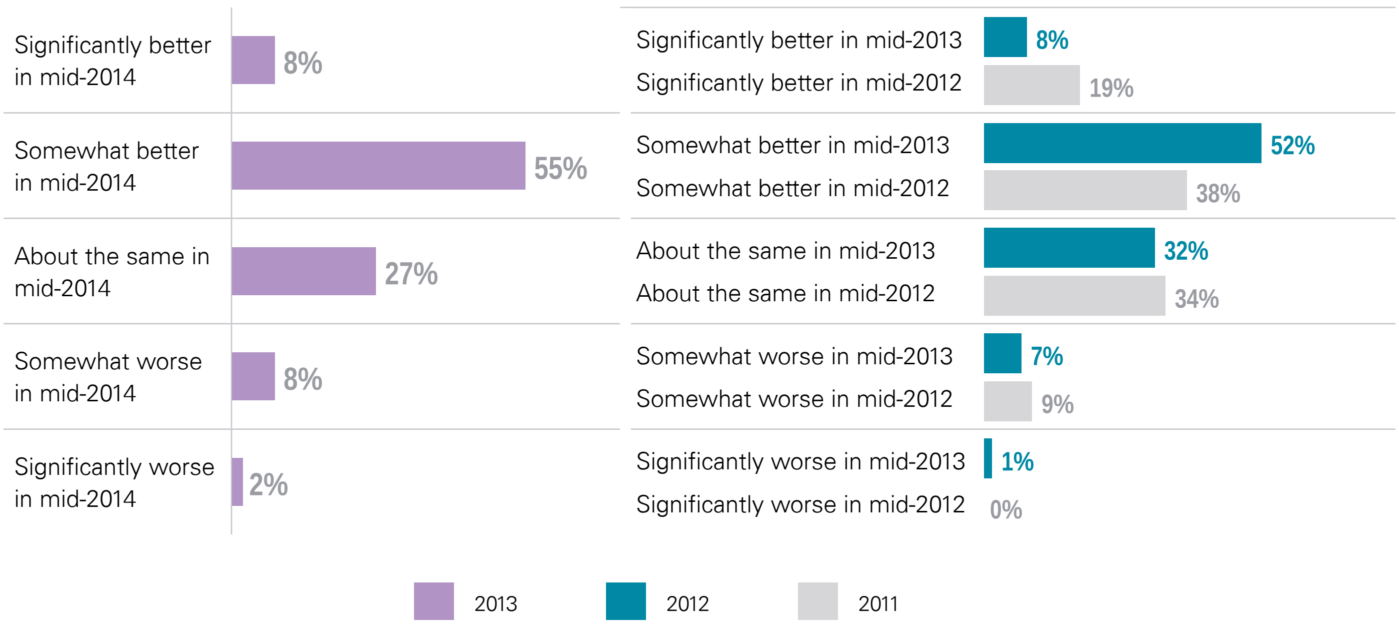
2011



This is up from 2011 and 2012, when 58 percent of executives in both years said they expected the U.S. economy to improve.

Almost two-thirds of executives (63 percent) believe that economic fundamentals will improve by mid-2014, while 27 percent believe they will remain unchanged.

Q: How would you compare today's key economic fundamentals (unemployment, job growth, cost of living, etc.) in your primary markets with those you expect in mid-2014?

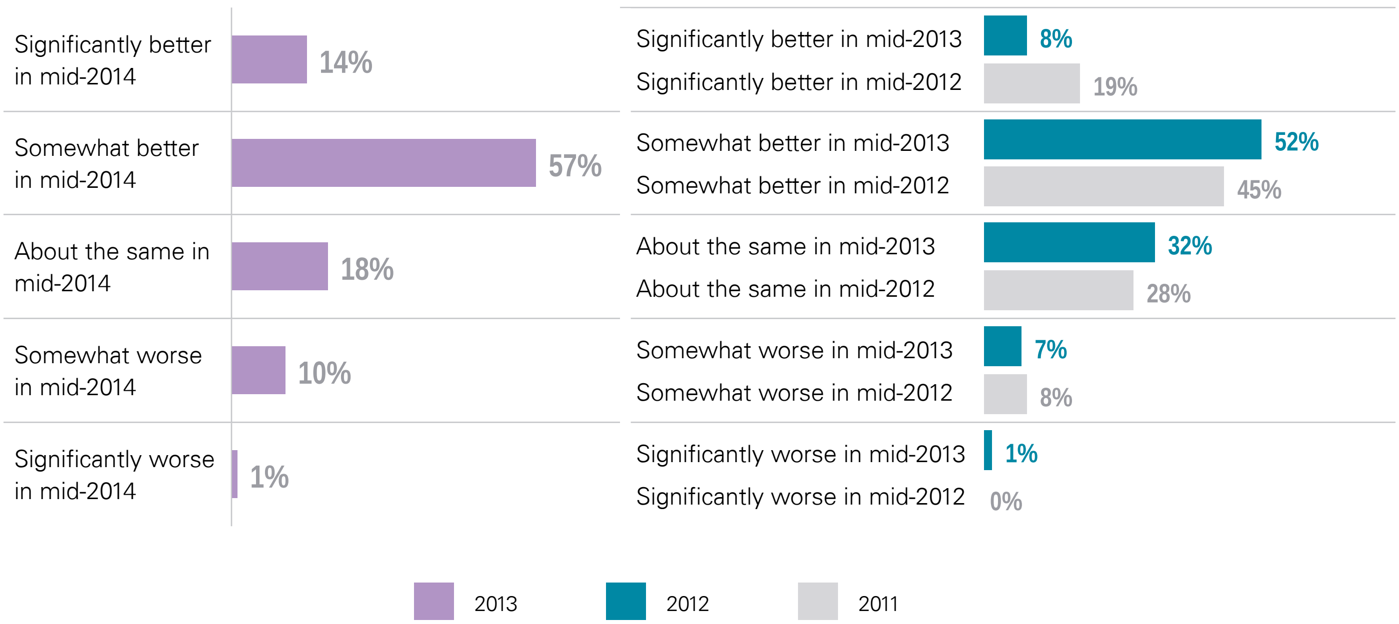


In keeping with other results related to the economy, only 10 percent expect economic fundamentals to worsen.

An uptick in real estate fundamentals

When it comes to key real estate fundamentals, nearly three quarters (71 percent) of survey respondents believe they will improve by mid-2014 in their primary markets.

Q: How would you compare today's key real estate fundamentals (vacancy/occupancy, rental rate, deal velocity, etc.) in your primary markets with those you expect in mid-2014?



Eighteen percent anticipate real estate fundamentals to stay the same, while only 11 percent expect them to get worse.

A closer look at growth and revenues

Driving revenue growth

While real estate fundamentals are improving, real estate executives see their company's strategic decisions as the key to revenue growth.

Q: Which of the following areas do you believe will be the three biggest drivers of your company's revenue growth in the next three years?

According to the executives surveyed, acquisitions will continue to be the biggest drivers of growth over the next three years, followed by improvement in the industry's key fundamentals, expansion into new markets, and more aggressive leasing.

53%
Acquisitions
2012: 32% | 2011: 33%

44%
Improving real estate fundamentals
2012: 72% | 2011: 50%

38%
Geographic expansion
2012: 25% | 2011: 38%

35%
More aggressive leasing
2012: 19% | 2011: 30%

24%
New services
2012: 23% | 2011: 38%

21%
Better/cheaper access to capital*
2012: 19% | 2011: N/A

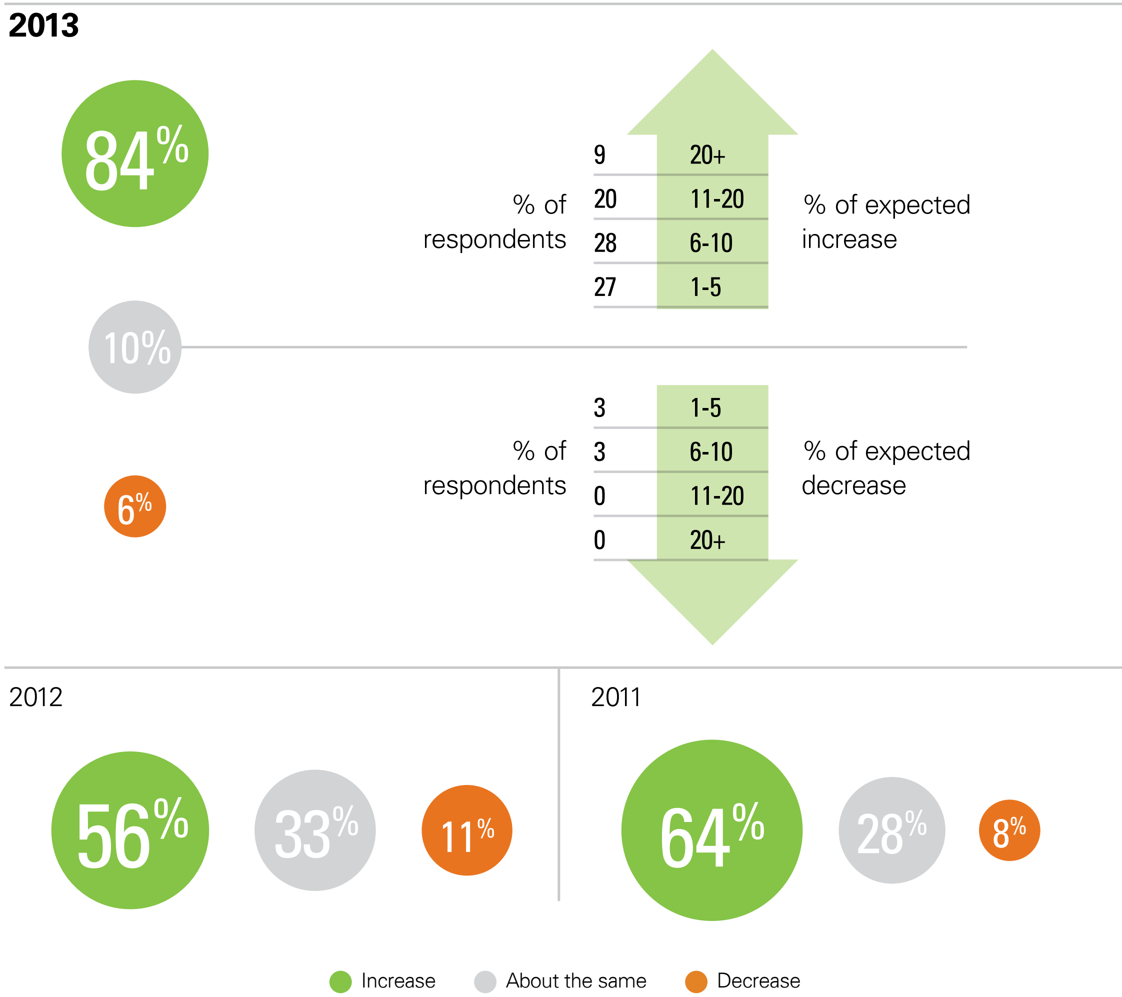
3%
Other*
2012: N/A | 2011: N/A

Multiple responses allowed

* Not asked in either 2012 or 2011

Eighty-four percent reported that current revenue was better than a year ago, with more than a quarter (29 percent) saying that it improved in excess of 10 percent.

Q: Compared with this time last year, how would you describe your company's current revenue?



Notably, only six percent said it had decreased over the past year.

Barriers to growth

Pricing pressures are the greatest barriers to growth over the next year, according to survey respondents.

Q: Which of the following are the most significant growth barriers facing your company over the next year?

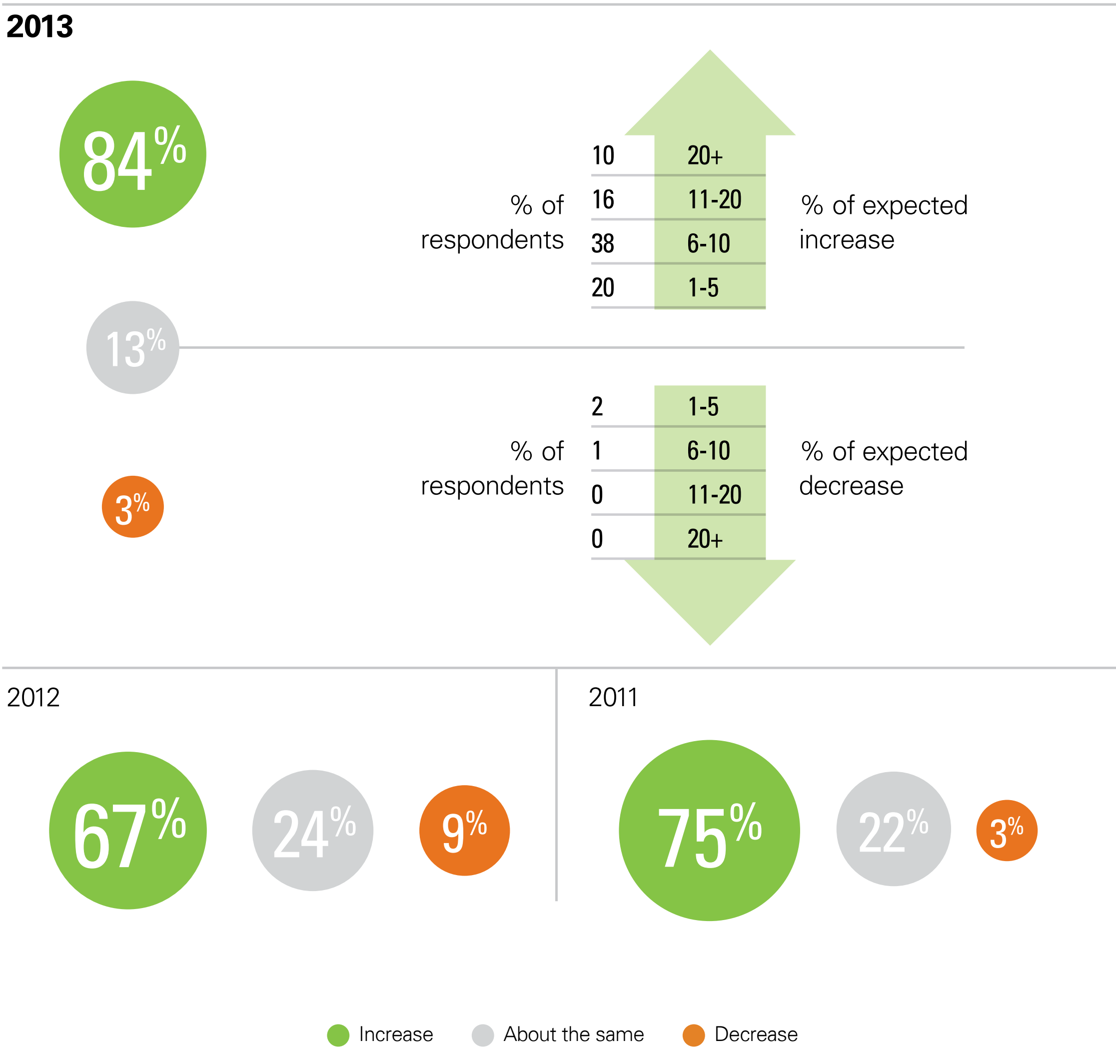
	% in 2013	% in 2012	% in 2011
Pricing pressures	32	35	23
Lack of customer demand	30	25	36
Regulatory and legislative pressures	24	21	28
Increased taxation	21	13	17
Access to and managing capital	18	24	17
Labor costs	18	8	20
Risk management issues	15	8	13
U.S. dollar strength	12	16	14
Staying on top of emerging technologies	10	5	11
Lack of qualified workforce	9	15	8
Energy prices	8	13	19
Inflation	8	7	11
Volatile commodity/input prices	7	7	3
Exchange rate fluctuations	6	3	6
Foreign competition	5	3	6
Other	6	9	0

Multiple responses allowed

Lack of customer demand and regulatory and legislative pressures round out the top three responses.

Eighty-four percent of executives expect revenue to grow over the coming year, the same share as those who reported an increase in revenue over the past year.

Q: What do you expect your company's revenues to be like one year from now?

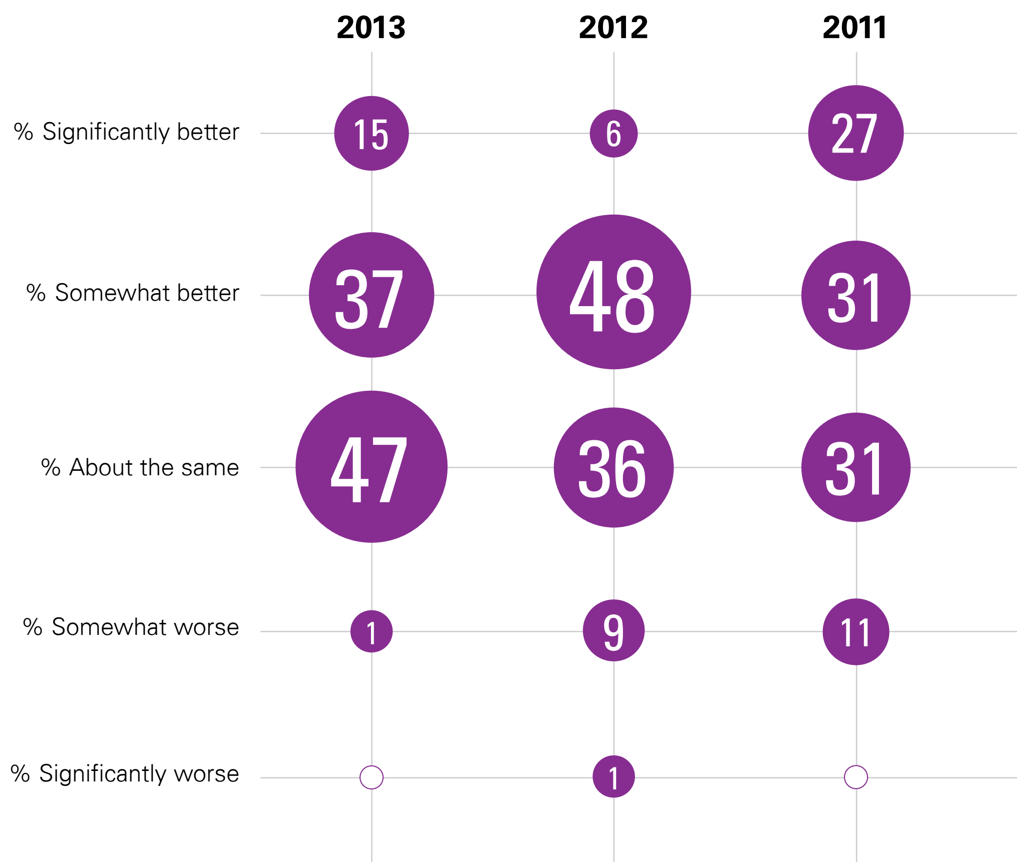


Based on other findings from this survey, they are expecting this growth to come through the acquisition of assets and entry into new markets, but not necessarily through M&A activities.

Improved debt financing

More than half (52 percent) of respondents said their company's access to debt financing was improved compared to a year ago.

Q: Compared with mid-year 2012, how would you rate your company's current access to debt financing?



This is down slightly from 54 percent in 2012 and 58 percent in 2011. Perhaps more significantly, only 1 percent reported that their company's access to debt financing was worse, down from 10 percent in 2012 and 11 percent in 2011.

Interestingly, while access to debt financing is improving, more than half (53 percent) of executives said the cost is about the same as a year ago, and 29 percent said it was less expensive.

Q: Compared with mid-year 2012, how would you rate the cost of debt financing available today to your company?

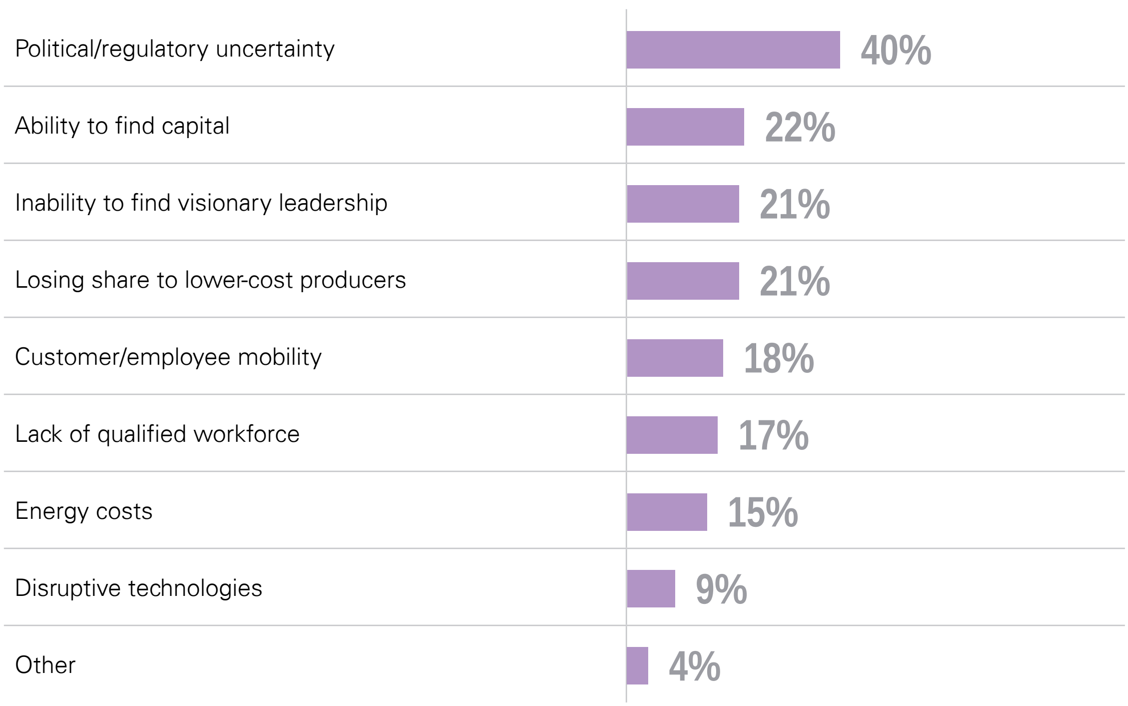
Only 18 percent reported that the cost of debt financing had increased over the past year.

The impacts of regulatory change

Threats to business models

Political and regulatory uncertainty is the issue posing the biggest threat to business models, according to 40 percent of executives.

Q: What issues pose the biggest threat to your business model?



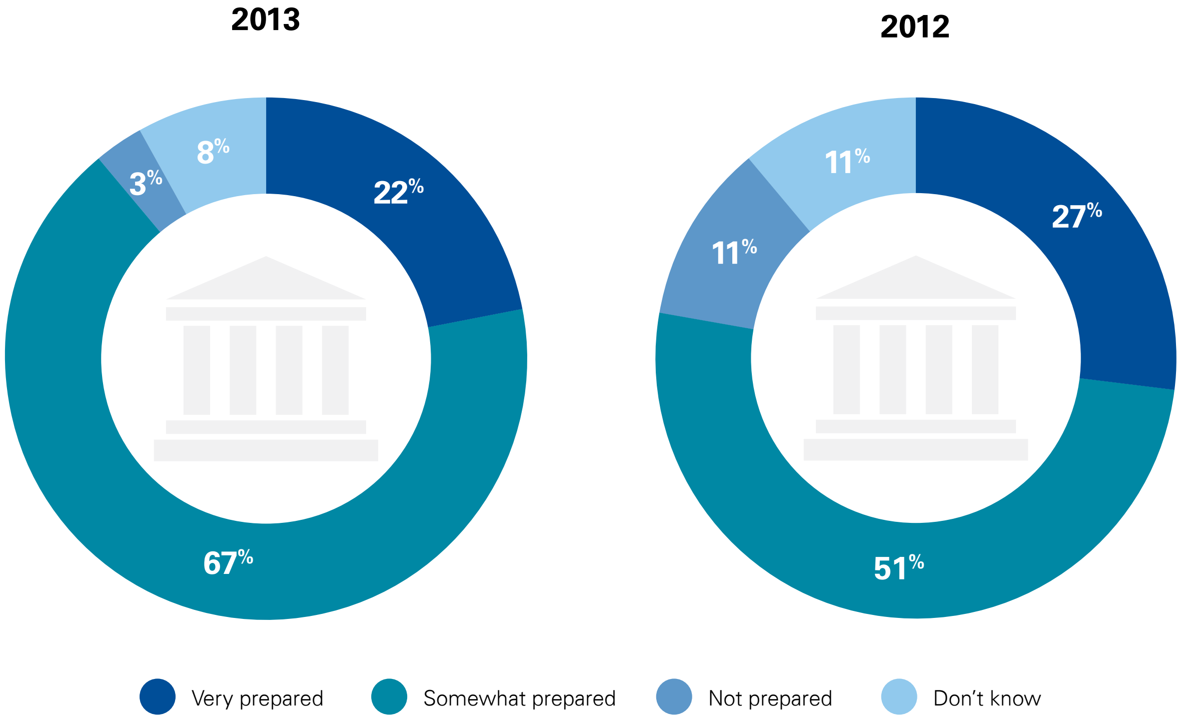
Multiple responses allowed

The ability to find capital (22 percent) was a distant second, and most of the other responses were closely grouped, reflecting significance, but not consensus.

Prepared to manage changes

Sixty-seven percent of real estate executives believe they are somewhat prepared to manage the impact of regulatory change, perhaps reflecting the uncertainty over proposed or future regulations, which may exceed current capacity or expertise.

Q: How prepared is your company to proactively manage the impact of public policy and regulatory changes?



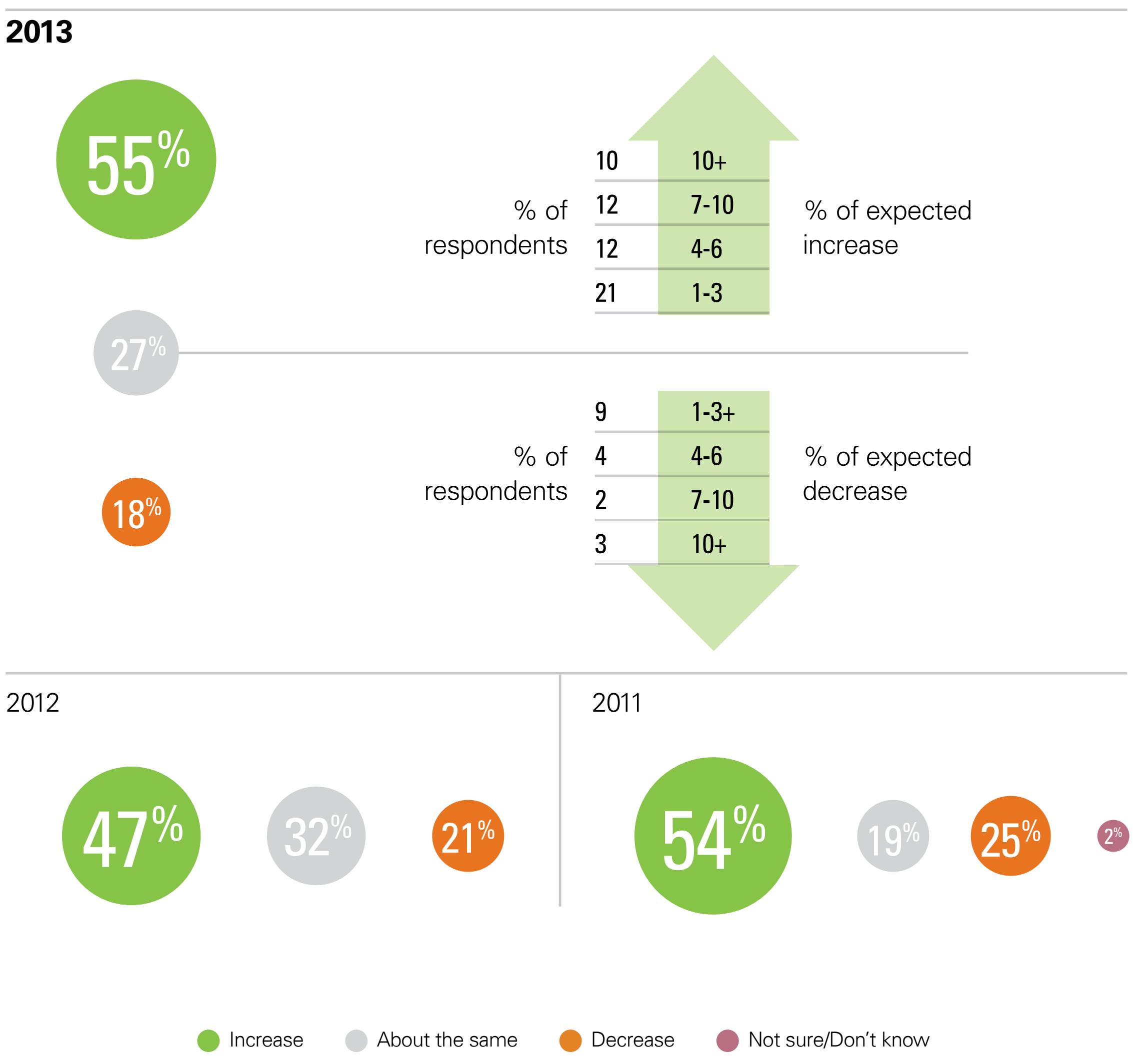
Twenty-two percent say they are very prepared to manage such changes.

> *"The political and regulatory environment continues to pose challenges and uncertainty. To maximize their success, organizations should assess how potential regulations and tax policy changes will impact their businesses, and proactively manage those impacts."*
>
> *— Greg Williams*
> *National Sector Leader, Building, Construction & Real Estate, KPMG LLP*

Staffing levels increase

More than half (55 percent) of real estate executives said their companies have increased headcount over the past year, up slightly from 47 percent in 2012.

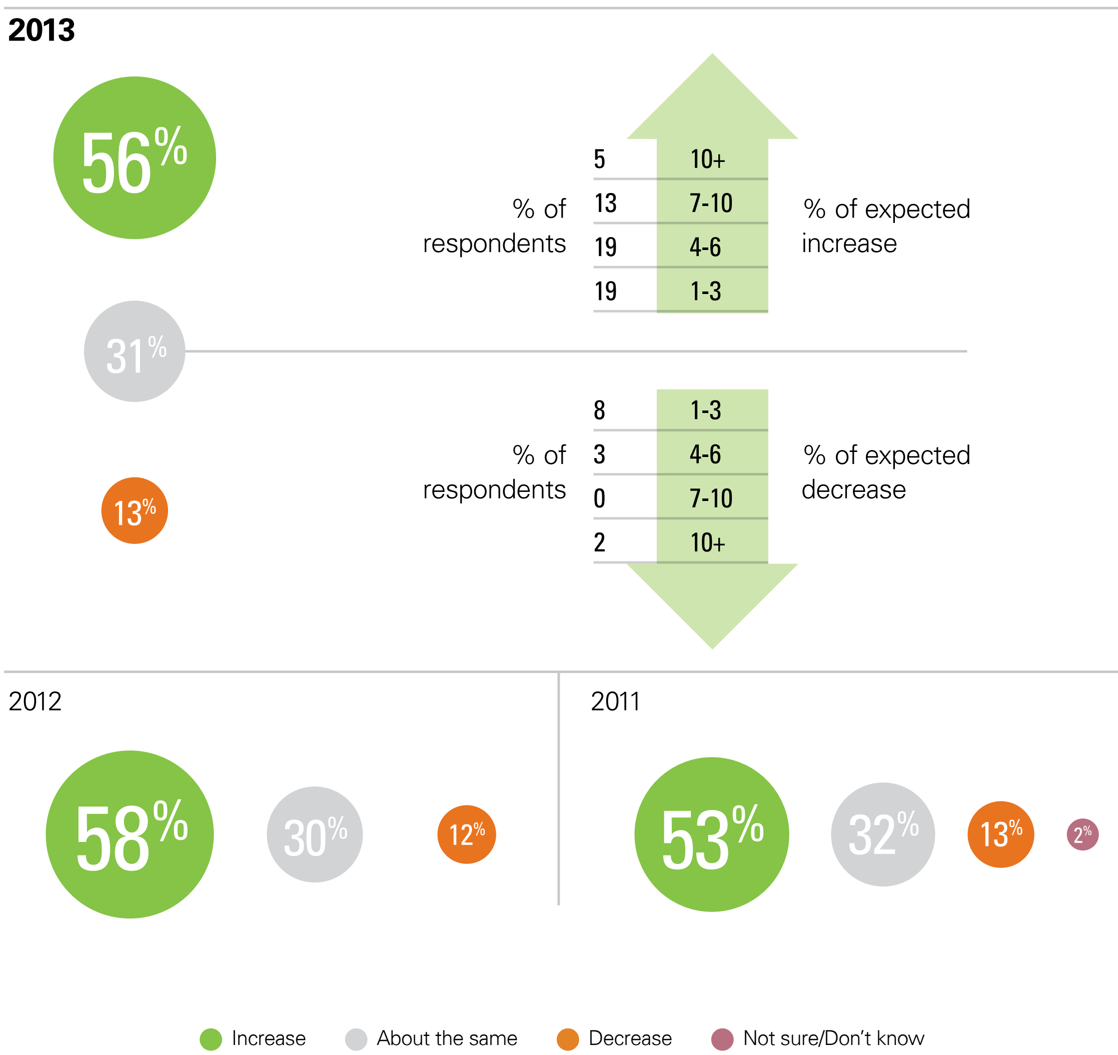
Q: Compared with this time last year, how would you describe your company's current U.S. headcount?



Future headcount expected

Executives have similar expectations for the year ahead, with 56 percent expecting an increase in hiring and 31 percent expecting staffing levels to remain the same.

Q: How do you expect your company's current U.S. headcount to change one year from now?



Conclusion

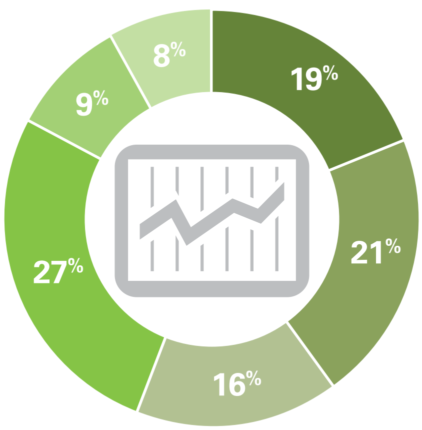
A year ago, our survey showed significant uncertainty around the future of the economy as well as prospects for the industry. This year's results point to a higher level of optimism for both, interspersed with lingering concerns over a slow-growth economy, existing cost pressures, and regulatory challenges. Indeed, the vast majority of survey participants saw their revenues increase over the past year and expect the trend to continue in the year ahead. Real estate firms are increasing investment in the United States as well as in new markets abroad.

Overall, the economic recovery has started to take hold in the real estate sector. While cautious optimism continues to prevail, the industry is seemingly ready to seize growth and new opportunities.

Demographics & methodology

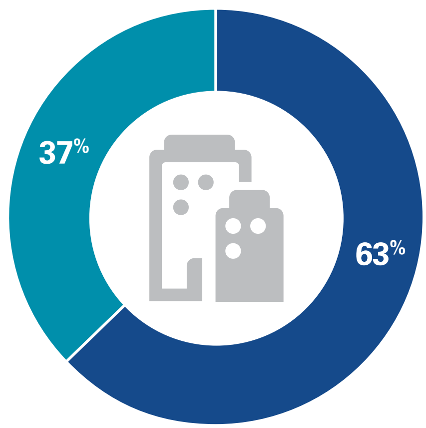
KPMG's 2013 Real Estate Industry Outlook Survey was conducted during the spring of 2013 and reflects the viewpoints of 100 U.S. industry executives.

Revenue



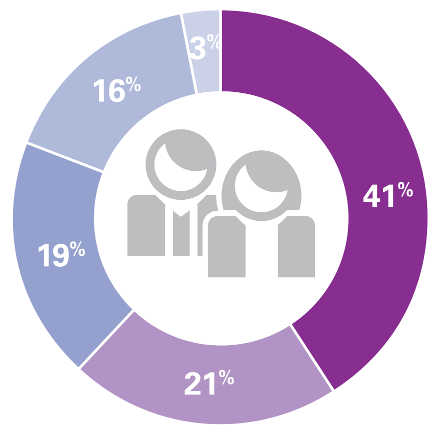
- Less than $100 million (0%)
- $100 million to $249.9 million (19%)
- $250 million to $499.9 million (21%)
- $500 million to $999.9 million (16%)
- $1 billion to $4.9 billion (27%)
- $5 billion to $10 billion (9%)
- More than $10 billion (8%)

Company Type



- Private (63%)
- Public (37%)

Title/Position



- Senior Vice President or Director level (41%)
- Executive Vice President/Managing Director level (21%)
- C-Class (CFO, COO, CTO, etc.) (19%)
- CEO, President (16%)
- Other (3%)

About KPMG

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