# The NAIOP CRE Sentiment Index

Industry Leaders' Outlook for Commercial Real Estate

SPRING 2024

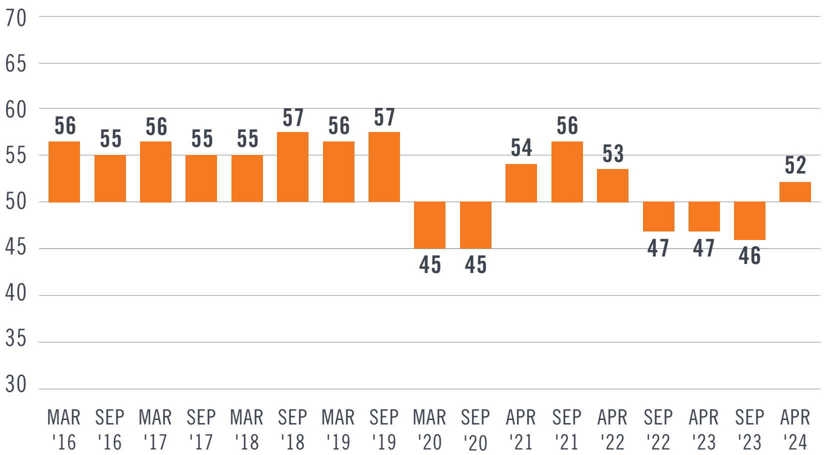
**NAIOP CRE Sentiment Index 52**

Survey Conducted April 3-11, 2024

0 | 50 | 100

| Below 50 means **unfavorable** CRE conditions are expected in 12 months. | 50 means **no change** in CRE conditions is expected in 12 months. | Above 50 means **favorable** CRE conditions are expected in 12 months. |
|---|---|---|

FIGURE 1: **COMPOSITE SENTIMENT INDEX, 2016-2024**




## Key Findings

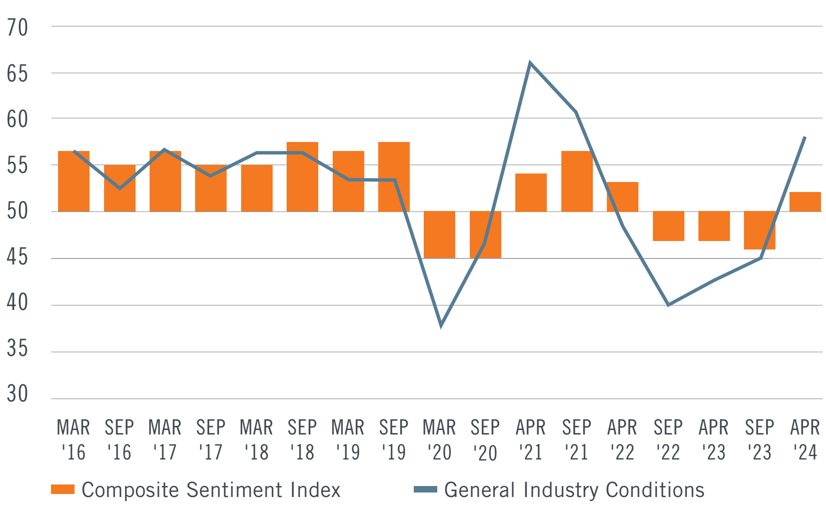
**The NAIOP CRE Sentiment Index for April 2024 is 52**, a rebound from the September 2023 reading, indicating that respondents expect conditions for commercial real estate to improve over the next 12 months (see Figure 1).

**Respondents have a positive outlook for every component that comprises the Index except for construction costs**, which they expect to be higher next year. This marks a turnaround in sentiment for most CRE fundamentals, which was negative for almost every Index component in September.

**Respondents are now much more optimistic about capital market conditions than they were in September.** The outlook for the availability of debt, the availability of equity and first-year cap rates improved more than for other measures. This shift is likely due to an expectation that interest rates will fall over the next 12 months. In response to a question that is not used to calculate the Index, developers and building owners indicated they expect interest rates to be lower than they had predicted in September.

**Respondents also expect demand for commercial real estate to improve slightly.** Their outlook for occupancy rates and effective rents rose, with both measures now suggesting some improvement over the next year. Open-ended comments suggest that most respondents expect favorable demand for industrial, retail and multifamily, whereas office will likely continue to struggle.

FIGURE 2: **COMPOSITE SENTIMENT INDEX VS. OUTLOOK FOR GENERAL INDUSTRY CONDITIONS, 2016-2024**




**Developers and building owners now expect their deal volume to grow slightly over the next year.** This is an improvement from September, when they had projected a decline in activity. Their expectation of handling a higher dollar volume of new projects and acquisitions reflects an improving outlook for capital availability.

**Respondents expect general industry conditions to improve over the next 12 months.** The score for general industry conditions (58) is calculated separately from the CRE Sentiment Index. Like the Index, it has rebounded since September. A higher score than the Index may be attributable to an improved outlook for the economy overall. When asked separately from the questions that comprise the Index, developers and building owners indicated they expect somewhat favorable local economic conditions over the next 12 months.



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**About two-thirds of respondents expect to be most active in either industrial or multifamily real estate during the next 12 months** (see Table 1). Data centers and retail properties attract the next highest levels of interest.

TABLE 1: **PROPERTY TYPES WHERE RESPONDENTS EXPECT TO BE MOST ACTIVE OVER THE NEXT 12 MONTHS**

| Property Type | Percentage |
|---|---|
| Industrial | 40.6% |
| Multifamily | 24.1% |
| Data Center | 7.0% |
| Retail | 6.1% |
| Office | 5.5% |
| Mixed-use | 4.8% |
| Medical Office | 4.2% |
| Life Science | 3.1% |
| Other | 2.2% |
| Self-storage | 1.3% |
| Hospitality | 0.7% |

## Notable Changes in the April 2024 Survey

Figures 3 and 4 compare respondent expectations in April 2024 for the individual components that comprise the NAIOP CRE Sentiment Index to expectations in past surveys. For component scores from before 2020, please refer to past editions of this report. Values above 50 represent expectations that a condition will be more favorable for development in 12 months (e.g., higher face rents, lower construction labor costs, lower cap rates). Values below 50 represent expectations that a condition will be less favorable during the next 12 months.

**The three capital market indicators continued to rebound and rose more sharply than the outlook for other CRE fundamentals.** Compared with the September survey, the outlook for debt availability saw the largest improvement with a score of 58, followed by first-year cap rates (52) and equity availability (58). All three indicators had been coming off prior lows in September but were then still signaling tightening capital availability (see Figure 3). Respondents now appear to expect that capital markets will turn the corner this coming year. However, open-ended comments suggest that developers and investors are still waiting for rates to come down and expect that rate cuts are more likely later in the year.

**Other changes were more modest but also suggest improving conditions for development.** Respondents now expect occupancy rates, effective rents and employment within their own firms will all improve at least somewhat, in contrast with September's outlook for these conditions to worsen. The outlook for construction material costs and construction labor costs remained almost unchanged.

FIGURE 3: **SENTIMENT INDEX COMPONENT SCORES: OCCUPANCY, RENTS, CONSTRUCTION COSTS**

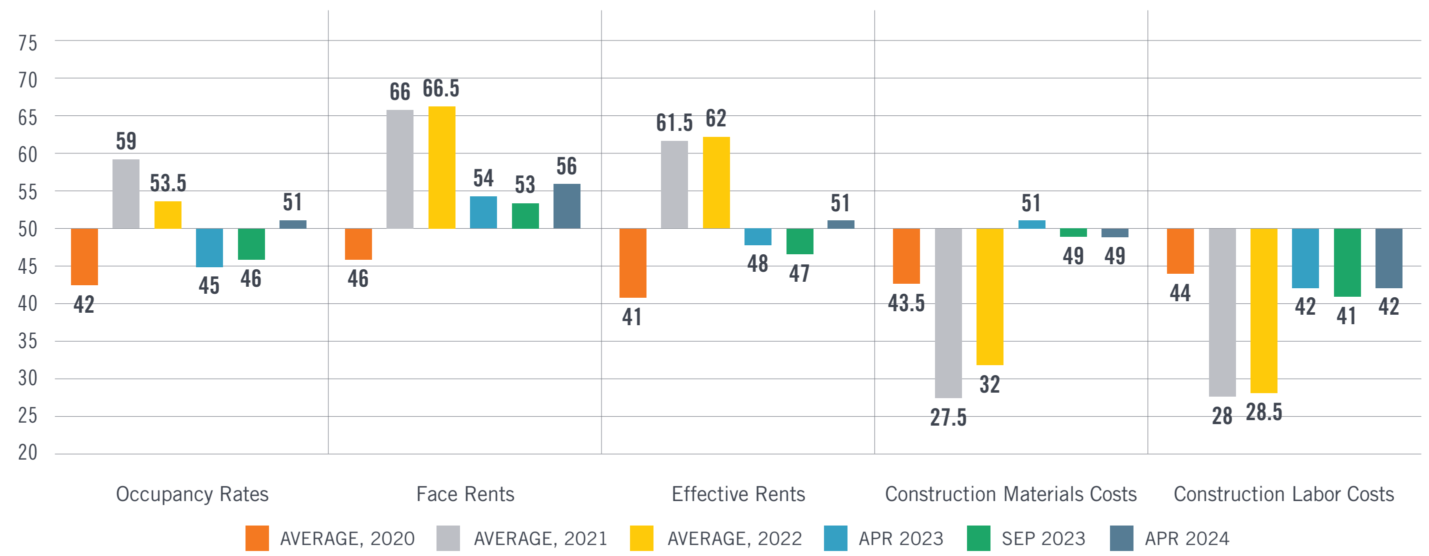
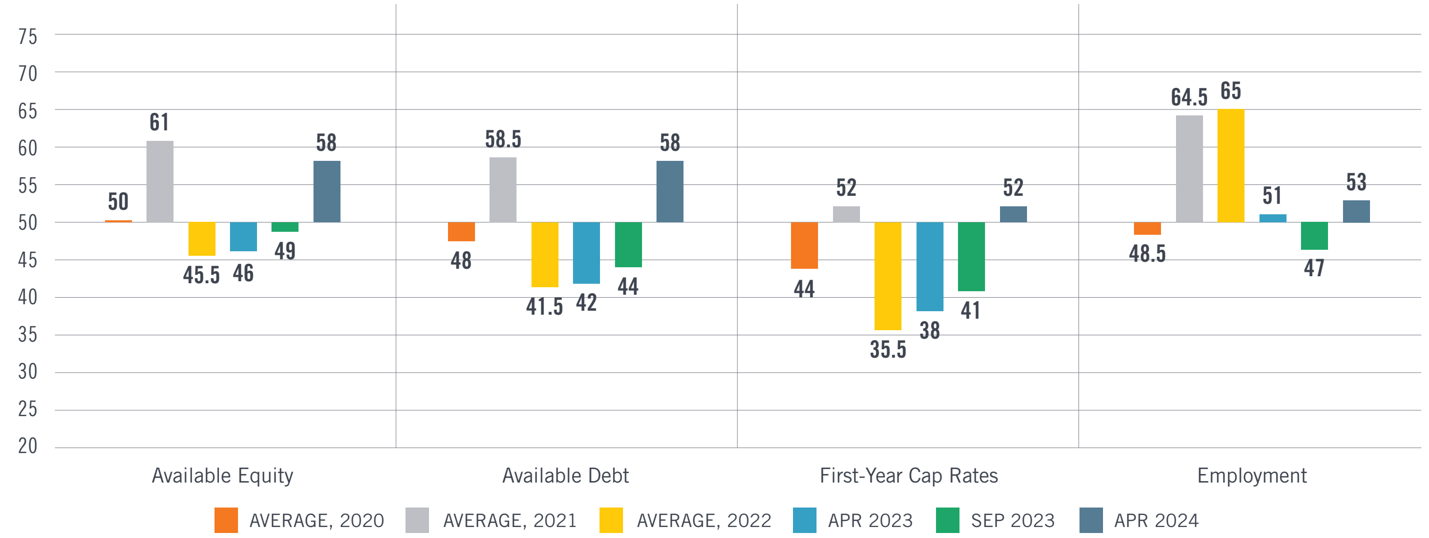


FIGURE 4: **SENTIMENT INDEX COMPONENT SCORES: EQUITY, DEBT, CAP RATES, EMPLOYMENT**




## Expectations for Development Conditions

The survey asks developers and building owners to evaluate how important interest rates, local economic conditions, local development approvals processes, environmental regulations and other government regulations will be to their decisions to initiate or continue development projects over the next 12 months (answers to these questions are not factored into the NAIOP CRE Sentiment Index). The survey then asks developers how favorable they expect these conditions to be. The results are described in Table 2 on a 100-point scale.

TABLE 2: **IMPORTANCE AND FAVORABILITY OF DEVELOPMENT CONDITIONS OVER THE NEXT 12 MONTHS**

| Condition | Importance, April 2024 | Favorability | |
|---|---|---|---|
| | | September 2023 | April 2024 |
| Interest Rates | 83 | 22 | 38 |
| Local Economic Conditions | 83 | 50 | 54 |
| Local Development Approvals | 75 | 40 | 43 |
| Environmental Regulations | 71 | 40 | 40 |
| Other Government Regulations | 69 | 39 | 39 |

Respondents now rate interest rates and local economic conditions to be equally important in their development decisions. They continue to expect that interest rates will be unfavorable over the next year but not as unfavorable as they had previously expected. They now expect local economic conditions to be somewhat favorable. Their outlook for development approvals, environmental regulations and other regulations shifted little since the September survey. In open-ended comments, a few respondents expressed concerns that a range of federal, state and local government policies would hinder development, including environmental regulation, slow development approvals and real estate tax increases.

## Differences Between Developers and Non-developers

Respondents were asked to identify their primary profession. When comparing the responses of developers and building owners to non-developers, only one statistically significant difference emerged: Non-developers think it is likely their firms will expand employment over the next 12 months (score of 60), while developers continue to expect a slight decline in employment within their firms (score of 48). One possible explanation for this difference is that high interest rates and construction costs continue to put a damper on new development and acquisitions, a trend that several respondents noted in open-ended comments. Economic growth may be more supportive of other types of commercial real estate activity that are less significantly affected by higher rates (e.g., leasing, tenant improvements).

## Direct From Survey Participants

"The office market will continue to struggle to divest itself of properties that have reached functional obsolescence as companies seek high-amenity Class A projects."

"The pain is just getting started in the office sector. The combination of lease expirations and loan maturities will be a problem."

"Office is the wild card going forward in the upper Midwest, where I work. Industrial is still the darling and multifamily is the steady Eddy. Retail is still in demand, but rents have not caught up with higher costs."

"As a multifamily commercial loan officer, I see rates staying elevated for longer than the markets are anticipating, creating higher cap rates on sales of properties and generally fewer asset trades."

"I think most asset classes will be well positioned after the next 12 months when supply and demand dynamics rebalance in favor of CRE assets and interest rates are meaningfully lower."

"The expectation of rate cuts is weighing on the decision to start projects in the current cycle. I think we'll see a significant uptick in new construction requests upon any sort of meaningful rate pullback."

"The combination of interest rates staying higher for what appears to be a longer time frame and increased development costs is resulting in less development activity."

"We are very excited for all of the funding that is coming for housing, but state/local entitlement processes are [creating a] bottleneck. There is a housing crisis and when it takes 24 months or longer to entitle a project, then 18 months to build the housing, problems will only get worse before they get better."

## Methodology

The NAIOP CRE Sentiment Index is designed to predict general conditions in the commercial real estate industry over the next 12 months by asking industry professionals to predict conditions for their projects and markets. The NAIOP CRE Sentiment Survey is conducted biannually, in March/April and August/September. The survey is sent to roughly 10,000 NAIOP members in the U.S. who are developers, building owners, building managers, brokers, analysts, consultants, lenders and investors in commercial real estate. It asks questions about jobs, space markets, construction costs, capital markets and other conditions for real estate development. The questions that comprise the Sentiment Index are not equally weighted. Instead, weighting varies based on whether responses to a question are tightly packed or dispersed. Questions with tightly packed responses (meaning there is more consistency among the answers to that question) are more heavily weighted than those with more dispersed responses (which indicate less consistency).

If every participant in the survey selected the most optimistic answer to every question, the index would be 100. Conversely, if all the participants chose the most pessimistic response to every question, the index would be 0. The survey includes questions that evaluate sentiment about conditions that are not included in the composite sentiment index score but are measured separately on a 100-point scale.

A cross-tabulation of the April survey results by respondent profession revealed only one difference that was statistically significant. Differences that were not statistically significant are not reported in this analysis.

A total of 456 respondents from 343 distinct companies participated in this survey. A breakdown of the property types that respondents work on is provided in Table 3.

A regional breakdown shows that 47.8% of respondents are active in the West, 40.8% are active in the South, 33.6% are active in the East and 24.3% are active in the Midwest.

Survey participants receive a summary of results showing the percentage breakdown of responses to each question after the survey closes. This report is released to all NAIOP members and the public three to four weeks later. Survey responses for this index were gathered between April 3 and April 11. The response rate for this survey was 4.6%, and the margin of error for the composite index score was 4.6%.

The statistical methodology for the Sentiment Index was originally developed by Tom Hamilton, Ph.D., MAI, CCIM, CRE, the Gerald Fogelson Distinguished Chair of Real Estate in the Chicago School of Real Estate at Roosevelt University. The survey data was collected by NAIOP, and the survey questions were created, refined and finalized between 2014 and 2021 with the assistance of several NAIOP Distinguished Fellows. NAIOP Senior Research Director Shawn Moura, Ph.D., authored the current edition of the survey and this summary analysis. For questions about the CRE Sentiment Index, please contact Shawn at **moura@naiop.org**.

TABLE 3: **RESPONDENT PROPERTY TYPES**

| Property Type | Percentage* |
|---|---|
| Industrial | 72.1% |
| Office | 52.4% |
| Multifamily | 41.0% |
| Retail | 37.9% |
| Mixed-use | 34.2% |
| Medical Office | 23.9% |
| Life Science | 18.4% |
| Hospitality | 16.2% |
| Self-storage | 14.0% |
| Data Center | 12.5% |
| Other | 7.0% |

*As respondents can work on multiple property types, combined total across property types exceeds 100%.

**Media Inquiries**

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