Key Findings

The NAIOP CRE Sentiment Index for April 2021 is 54, significantly higher than the August/September 2020 reading, and a return to positive sentiment. This indicates that respondents expect conditions for commercial real estate to improve over the next 12 months (see Figure 1).

Respondents expect most conditions to improve over the next year. In contrast with a generally negative outlook for conditions in the previous survey, respondents now expect improvement in occupancy rates, rents, the availability of equity and debt, and employment within their own firms (see Figure 3, page 2). On average, survey-takers expect cap rates to remain unchanged.

On the other hand, respondents are now more pessimistic about construction costs. Most expect construction labor costs to increase, and sentiment about construction materials costs is now more pessimistic than in any prior survey. A worsening outlook for costs likely reflects current labor and material shortages but may also indicate a consensus that demand for construction will grow over the next year.

Respondents expect greater improvement in general industry conditions than for any of the individual factors that comprise the CRE Sentiment Index. This may reflect optimism about factors that the index does not directly measure, such as general economic conditions. A score of 66 indicates respondents now expect a greater improvement in general industry conditions than in any previous survey (see Figure 2).

Although respondents are broadly more optimistic, high standard deviations in survey results suggest continued uncertainty about the future. Varying degrees of optimism among respondents may also reflect a more challenging environment for some property types and geographic markets. As in the last survey, open-ended comments suggest a brighter outlook for industrial and multifamily properties and continued difficulty for retail properties.

A majority (57.0%) of respondents expect to be most active in projects or transactions related to industrial properties over the next year. Multifamily properties attracted the next largest share of interest (20.9%), followed by office properties (17.2%). Only 4.9% of respondents indicated that they expect to be most active in retail properties.
Notable Changes from the August/September 2020 Survey

Figure 3 compares respondent expectations in April 2021 for the individual components that comprise the NAIOP CRE Sentiment Index to respondent expectations in past surveys. 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 or lower cap rates). Values below 50 represent expectations that a condition will be less favorable during the next 12 months.

Compared with the last survey, respondents offered a more optimistic outlook for all conditions that make up the index except for construction material and labor costs. Respondents’ outlook for individual components of the index were generally closer to pre-pandemic averages than the results of the two 2020 surveys. Notably, respondents now expect first-year cap rates to remain unchanged in 12 months, in contrast with past expectations that cap rates would increase.

Levels of agreement/disagreement between respondents remain close to those observed in the two surveys from last year, and they are higher than levels recorded in surveys from before the pandemic. This suggests continued uncertainty about future conditions. Lower-than-usual levels of agreement between respondents may suggest that the CRE Sentiment Index for April 2021 is less predictive of future market conditions than surveys from before 2020.

Some of the variation in the survey results may also reflect differences between respondents who specialize in different property types. Open-ended comments suggest that respondents are more optimistic about conditions for industrial and multifamily properties than they are for retail properties.

Expectations for Development Conditions

The sentiment survey asks developers and 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 expected these conditions to be. The results are described in Table 1 on a 100-point scale.

<table>
<thead>
<tr>
<th>Condition</th>
<th>Importance April 2021</th>
<th>Favorability September 2020</th>
<th>April 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Economic Conditions</td>
<td>82</td>
<td>48</td>
<td>73</td>
</tr>
<tr>
<td>Local Development Approvals</td>
<td>75</td>
<td>44</td>
<td>40</td>
</tr>
<tr>
<td>Other Government Regulations</td>
<td>69</td>
<td>39</td>
<td>39</td>
</tr>
<tr>
<td>Environmental Regulations</td>
<td>68</td>
<td>42</td>
<td>39</td>
</tr>
<tr>
<td>Interest Rates</td>
<td>67</td>
<td>75</td>
<td>68</td>
</tr>
</tbody>
</table>

As in the August/September 2020 survey, respondents identified local economic conditions and local development approvals processes as the most important of these factors. The most notable change since the previous survey is that they now expect local economic conditions to improve significantly. This change aligns with improvement in the sentiment index and in respondents’ outlook for general industry conditions. With some slight changes at the margins, the outlook for development approvals processes, interest rates and government regulations were qualitatively similar to those in September: a generally negative outlook for government regulations and approvals processes, and a positive outlook for interest rates. In open-ended comments, several respondents voiced concerns that state and local regulations, zoning changes and taxes would make development more difficult.
Respondents were asked to identify their primary profession. When comparing the responses of developers and building owners to non-developers, four statistically significant differences related to the conditions that comprise the sentiment index emerged (see Table 2). In each case, developers/owners and non-developers expect conditions to improve, but the expected degree of improvement varies. The employment outlook appears to be somewhat brighter for non-developer respondents than within developers’ firms. Developers and owners are more optimistic about future face rents and effective rents than non-developers, but non-developers expect equity to be more widely available than developers. Differing expectations about future rents may lead non-developers to value commercial properties and new development more conservatively than developers.

### Differing Expectations

<table>
<thead>
<tr>
<th>Metric</th>
<th>Average of All Respondents</th>
<th>Developers and Building Owners</th>
<th>Non-Developers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment</td>
<td>62</td>
<td>58</td>
<td>69</td>
</tr>
<tr>
<td>Face Rents</td>
<td>63</td>
<td>66</td>
<td>60</td>
</tr>
<tr>
<td>Effective Rents</td>
<td>58</td>
<td>66</td>
<td>55</td>
</tr>
<tr>
<td>Available Equity</td>
<td>62</td>
<td>60</td>
<td>65</td>
</tr>
</tbody>
</table>

**Direct From Survey Participants**

“I believe the market is in somewhat of a holding pattern as the reopening from the COVID-19 pandemic materializes. As a result, I do not expect significant volatility until the bulk of businesses and schools have reopened fully and the foreclosure moratoriums end.”

“Industrial real estate is climbing in rents and sales prices. There is a high demand for industrial space now, and I believe it will continue to be that way for a while.”

“I think that industrial will stay very strong, that people will return to their offices gradually over the next year and that retail will recover some, but retail is under severe pressure from e-commerce.”

“Office [properties] in Tier 1 cities like New York and San Francisco, I believe, will see lower occupancy and rents for two to three years, with multifamily properties in these locations recovering much more quickly. Industrial/flex/ warehouse will likely remain tight on both vacancy and rents, [and] retail will lag with non-essential retail space (i.e., big-box department stores) likely gone for good. There is plenty of debt and equity available, it is just significantly more selective than it has been in recent memory. As rates increase with inflation, demand will decrease for a short time until borrowers adjust their thinking. Equity knows it is in high demand with asking rates increasing 2% to 4% already this year.”

“With [Federal Reserve] Chairman Jerome Powell committing to hold interest rates low for the next two years and with business beginning to open up the more people are vaccinated, I believe that Q4 of 2021 and all of 2022 will be filled with high consumption and more demand for logistics buildings. Not sure what will happen to office or retail. Hospitality and travel will take a while to come back.”

“We work in life sciences, [and] we see continued investment and growth in this sector for the next 12 months.”

“I am deeply concerned with the push for rent control and other taxation measures against multifamily investments. […] Vacancies are up, rents are down, and local governments prevent the permitting of new housing while demanding affordable housing. The circumstances have become untenable for developers.”

“If corporate taxes are changed this year or next, this could be a huge letdown in the marketplace.”

“Zoning is increasingly more difficult.”
Methodology

The NAIOP 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 own projects and markets. The NAIOP CRE Sentiment Survey is conducted biannually, in March/April and August/September. The survey is sent to roughly 8,500 NAIOP members in the U.S. who are developers, building owners, building managers, brokers, analysts, consultants, lenders and investors in the office, industrial, retail and multifamily sectors. 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 four differences that were both observable (at least one point apart on a 100-point scale) and statistically significant. Differences that were not observable or statistically significant are not reported in this analysis. Unlike the March 2020 survey, NAIOP did not cross-tabulate results by respondent property sector specialization, as the question used to identify this specialization measures projected development or transactional activity over the next 12 months. Given a sharp decline in retail and office activity, this question is less predictive of a respondent’s property type specialization than in normal market conditions.

A total of 407 respondents from 342 distinct companies participated in this survey. When individuals were asked what property types they worked on, 75.4% indicated they work on industrial properties, 70.2% work on office properties, 48.3% work on retail properties and 44.6% work on multifamily properties. A regional breakdown shows that 48.0% of respondents are active in the West, 45.3% are active in the East, 39.7% are active in the South and 29.3% 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 13 and April 22, 2021. The response rate for this survey was 4.94%, and the margin of error for the composite index score was 4.85%.

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 2020 with the assistance of several NAIOP Distinguished Fellows. NAIOP’s Director of Research, 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.

Media Inquiries

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