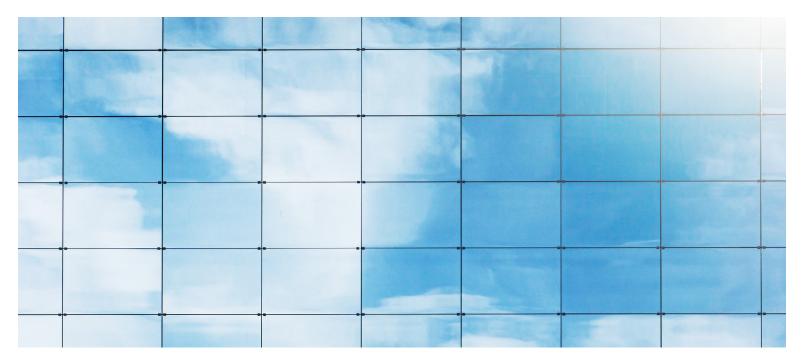


### **News & Information**

### Sizing Up Sentiment in CRE Deals



Among seasoned commercial real estate (CRE) professionals, it's widely understood that a deal's success relies on more than just ensuring it pencils out. While strong fundamentals are crucial, the markets are also shaped by numerous intangible factors—with one of the biggest being the prevailing market sentiment.

Investor and tenant confidence can make or break deals, affecting everything from the availability of new inventory to the rental rates that can be achieved for vacant space.

### **Defining Sentiment**

In broad terms, sentiment can be defined as the overall outlook or "mood" of investors when it comes to a particular market. In real estate, that can refer to the outlook of other parties as well, including developers, tenants, and brokers themselves.

These sentiments influence many day-to-day aspects of real estate transactions, such as what buyers are willing to spend on a property, the risks they're prepared to take, and the likelihood of securing financing for a project or purchase.

### **NAIOP CRE Sentiment Index**

One of the most trusted measures of CRE market sentiment is the index compiled by the Commercial Real Estate Development Association (NAIOP). NAIOP's sentiment index focuses on real estate professionals, and their projected outlook on their own projects and markets in the next 12 months. That includes sentiment around occupancy, rent, construction costs, and financial metrics, like cap rates.

The data gathered through NAIOP's surveys is translated into a value from 0-100, with anything under 50 indicating a prediction of unfavorable market conditions ahead. Meanwhile a value above 50, like the most recent index's score of 52, signals an uptick.



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#### Real Estate Roundtable Sentiment Index

The Real Estate Roundtable Index also focuses on sentiment among CRE professionals, typically top executives and representatives of industry associations. In this case, the factors considered include overall real estate conditions, access to capital markets, and changes in asset values.

Scores function similarly to NAIOP's, but with an overall value out of 100 taken as an average of the scores for current and expected future conditions. For example, in the most recent index, the overall sentiment score is 61 — reflecting the current score of 55 combined with a future score of 66.

Real Estate Roundtable's index also provides high level insight into sentiment around specific property types, reflecting changing views about sectors like office and industrial.

### **Dodge Momentum Index (DMI)**

A measure more relevant to the construction crowd is the Dodge Momentum Index (DMI). The DMI is published by Dodge Data and Analytics and provides a future view of planned non-residential construction - giving CRE professionals a glimpse of the potential inventory that will become available over the next few years.

Like other indices, the DMI serves as a signal of market demand and investor confidence, in this case by showing the overall health of construction spending. It also indicates sector growth, highlighting specific property types that have dominated recent project planning. For example, the July DMI shows continued interest in data centers, and a growing number of retail and healthcare projects on the books.

#### **CPPIs**

Another valuable resource that can help CRE professionals take the pulse of the industry is the set of commonly available Commercial Property Price Indices (CPPIs). These indices reflect market sentiment by showing how average property prices have changed over time, typically across different sectors and regions.

It's worth noting that different CPPI's are typically calculated in slightly different ways, which can affect their utility as indicators of sentiment. For example, many use purely historical data based on closed transactions and formal appraisals. Meanwhile others, like the Green Street CPPI, are updated with current valuation data as it becomes available giving insight into immediate trends.

Other differences can include how regions or even specific properties are weighted, meaning how much they contribute to the index value. This makes it imperative for savvy CRE professionals to pay close attention to exactly what's being measured to ensure they're getting an accurate reflection of market sentiment in their area.

### **Using Sentiment**

Like any other indicator, sentiment indices can provide valuable insights into the trends and developments shaping real estate markets. These insights can help brokers and investors gauge potential headwinds or tailwinds, enabling them to make better-informed decisions about potential deals.

With that said, it's worth remembering that sentiment is simply one part of a much bigger picture. One that combines hard numbers, fundamental CRE metrics, and a broker's instinct for what ultimately makes a deal worthwhile.