

FALL 2022

THE NAIOP NORTHERN NEVADA CRE SENTIMENT INDEX

LOCAL INDUSTRY LEADERS'
OUTLOOK FOR COMMERCIAL
REAL ESTATE

NAIOP

COMMERCIAL REAL ESTATE
DEVELOPMENT ASSOCIATION

NORTHERN NEVADA CHAPTER

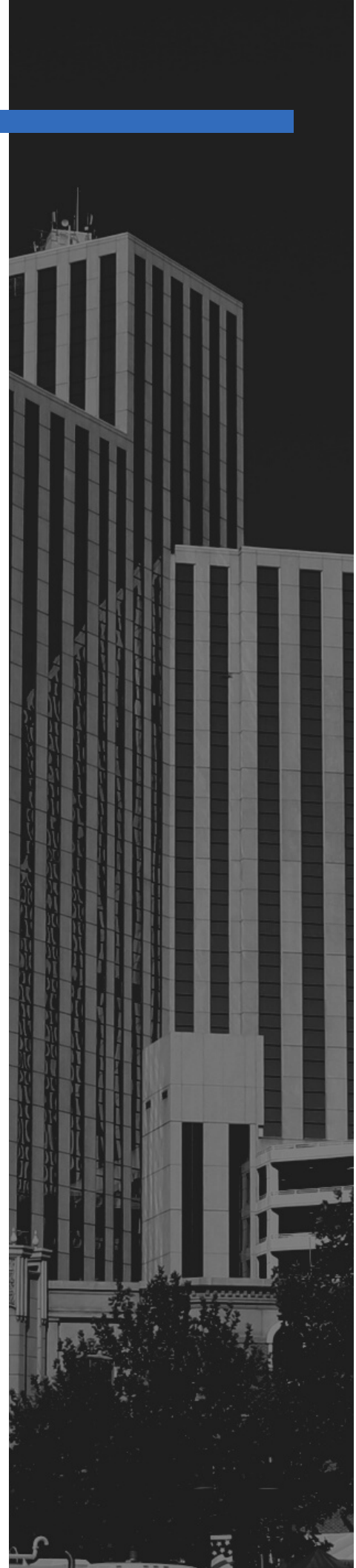
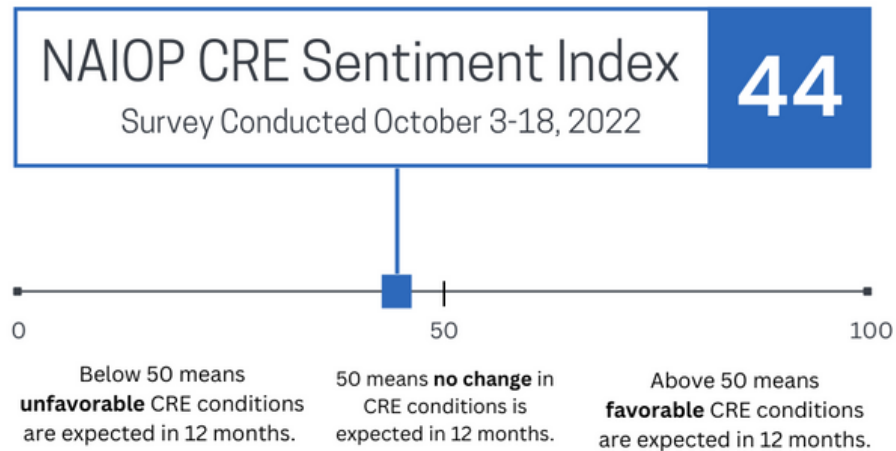


FIGURE 1



KEY FINDINGS

The NAIOP CRE Sentiment Index for Northern Nevada in October 2022 is 44. The score obtained by NAIOP's national survey for the same period was 47. This reading suggests that respondents expect conditions to be unfavorable for commercial real estate over the next 12 months, slightly less so locally.

Respondents expect higher interest rates, higher cap rates, and a decrease in the supply of equity and debt over the next year.

Respondents predict a sharper increase in cap rates and greater contraction in the supply of equity and debt than seen in the previous year (see Figure 3).

Their outlook for occupancy rates, face rents and effective rents is also less optimistic, though they still expect rents to grow (see Figure 2).

Respondents also expect a deterioration in general industry conditions over the next 12 months. The score for general industry conditions (30) is calculated separately from the CRE Sentiment Index and may reflect respondents' outlook for other factors that affect the commercial real estate industry, such as macroeconomic conditions. The national score for the same period was 39.

The only positive development in the October survey is that respondents expect a slower pace of construction cost inflation over the next year. Rising interest rates appear to have dampened inflation expectations. Respondents predict that construction material and labor costs will continue to rise but at a slower rate than was seen in 2022.



KEY FINDINGS (CONT.)

Despite a more pessimistic outlook for development conditions, developers plan to maintain recent deal volume over the coming year. Developers and building owners plan to complete about the same dollar volume of new projects and transactions over the next year as in the past year. This may reflect greater optimism for the sectors and markets they are active in than for the commercial real estate industry as a whole.

Most respondents (70%) 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 (43%), followed by office and retail properties (10% each).

FIGURE 2: SENTIMENT INDEX COMPONENT SCORES: OCCUPANCY, RENTS, CONSTRUCTION COSTS

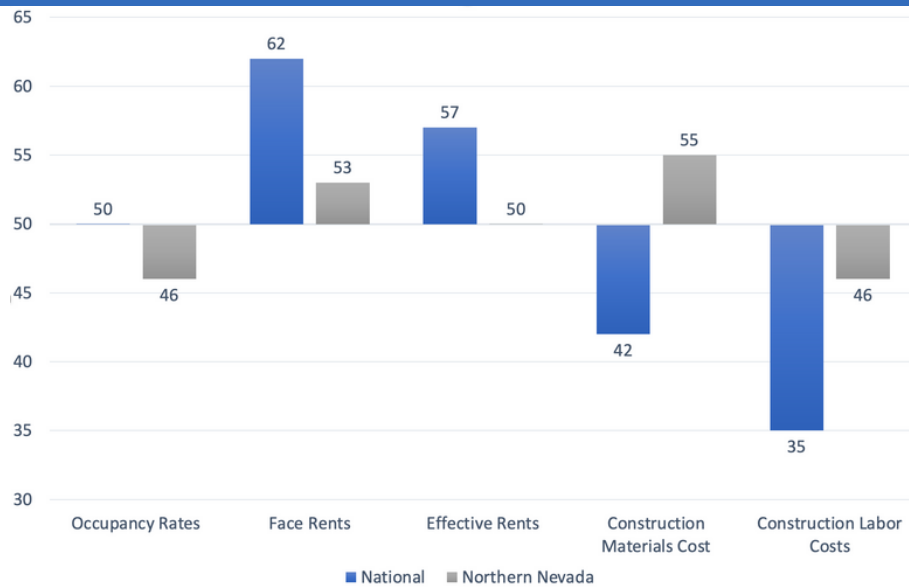


FIGURE 3: SENTIMENT INDEX COMPONENT SCORES: EQUITY, DEBT, CAP RATES, EMPLOYMENT



DIRECT FROM SURVEY PARTICIPANTS

“Industrial will continue to be strong, rates on flex industrial have probably reached their high and will level out or drop a bit.”

“We will see a moderate slow down in institutional development in the manufacturing and retail sectors. Non-institutional development in these sectors will likely remain steady or dip slightly.”

“I expect Industrial development to remain strong, with land availability remaining the major hurdle. Single Family home development is already slowing and will continue to fall as interest rates rise. Office development will most likely slow as we begin to see layoffs forced by the effects of rising interest rates.”

“The biggest question mark is where rates will be in a year from now, and what impact, if any, rising rates will have on inflation. Buying power will be reduced due to rising interest rates, compounded with higher inflation, a slow-down is inevitable.”

“We anticipate our industrial holdings to stay firm but our other holdings are going to feel a decline.”

“Hyper increases in interest rates will cause exponential chaos and market shock. We haven't seen this type of hyper shock in 50 years.”

“Debt and exit discovery should stabilize over the next 6-12 months providing a more certain landscape to operate. Construction pricing will come down in materials / commodities that require limited labor. Labor will be sticky and not move too far down. Cap rates should stabilize; just need some inflation index info showing it is on the way down. So long as market demand / fundamentals remain good (certainly will be down a bit but historically strong) equity and debt will be available for well-located deals.”

“We work with a variety of clients who want to get their employees back in the office and utilize their real estate the best they can.”

“We are seeing the construction delivery method evolving with pre-fabricated products, resulting in decreasing fragmentation and increasing a more streamline process. This is where I see the future of building remaining when the labor market is low and cost is on the rise.”

PROJECT REGIONS

Survey respondents were asked to select the regions in which they work. The below illustrates the number of responses per market.

