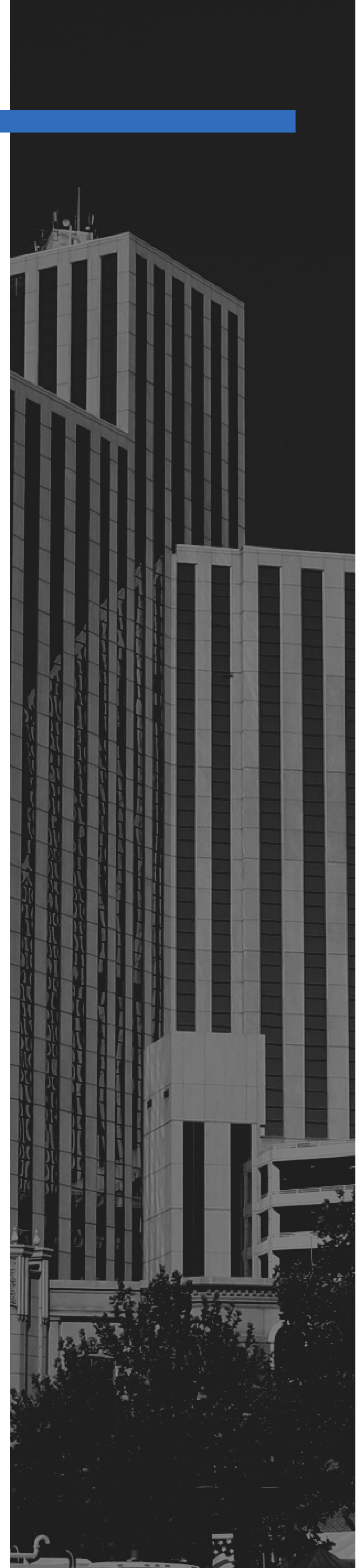
FALL 2023

THE NORTHERN NEVADA NAIOP CRE SENTIMENT INDEX

LOCAL INDUSTRY LEADERS' OUTLOOK FOR COMMERCIAL REAL ESTATE

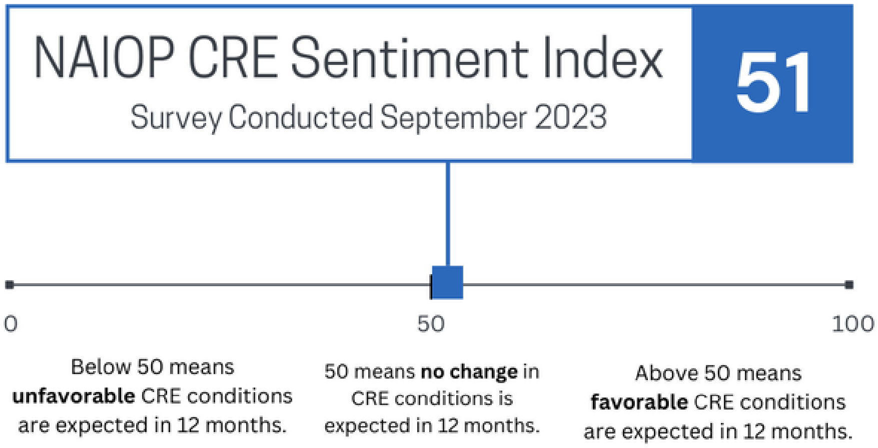


NAIOP

COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION

NORTHERN NEVADA CHAPTER

FIGURE 1



KEY FINDINGS

The NAIOP CRE Sentiment Index for Northern Nevada in September 2023 is 51. The score obtained by NAIOP's national survey for the same period was 46. While the national score was slightly lower, local responses indicate the first positive score (50 or greater) in the past year. This reading suggests that respondents expect local conditions to be slightly favorable over the next 12 months.

Respondents expect stable interest rates, higher cap rates, and a decrease in the supply of equity and debt over the next year.
A significant number of respondents predict a greater increase in cap rates and a contraction in the supply of equity and debt than seen in the previous year (see Figure 3).

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

Respondents also expect a deterioration in general industry conditions over the next 12 months. The score for general industry conditions (38) 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. In Spring 2023, the local score was 42 so there is decline indicating a contraction is expected. The national score for the same period was 45.

The Fall survey indicates that respondents expect construction material and labor cost to stabilize over the next year.

KEY FINDINGS (CONT.)

Due to a more pessimistic outlook for development conditions, developers plan to decrease deal volume over the coming year. Developers and building owners plan to complete less dollar volume of new projects and transactions over the next year as in the past year.

Most respondents expect to be most active in projects or transactions related to industrial properties over the next year.

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

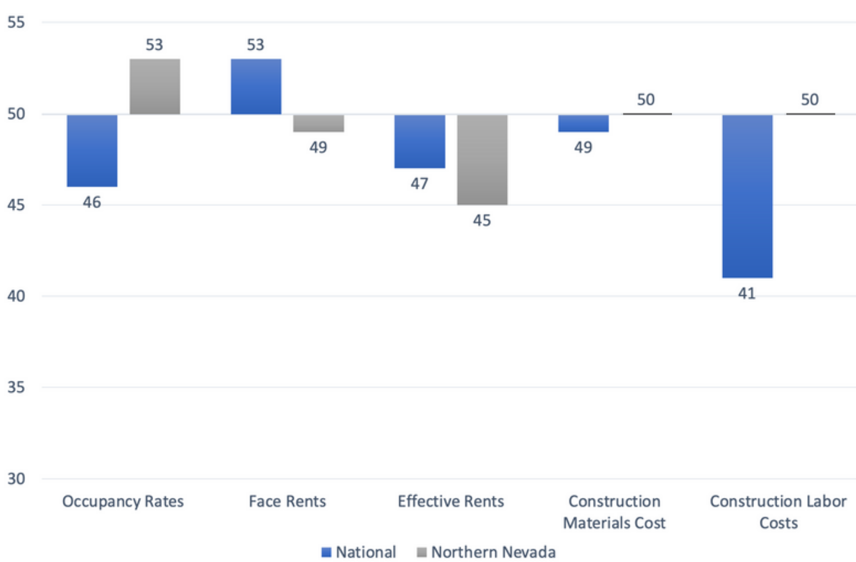


FIGURE 3: SENTIMENT INDEX COMPONENET SCORES: EQUITY, DEBT, CAP RATES, EMPLOYMENT

DIRECT FROM SURVEY PARTICIPANTS

“Due to the increase in interest rates and with the economic environment slowing, I would expect to see a slowdown in real estate activity. I think the office market will be challenged, as companies' occupancy requirements have changed due to COVID, not to mention some of the other economic factors (bank disruption, etc.).”

"The apartment market may become stagnant on the rent side, as more of the Class A buildings are completed and leased up. Notwithstanding, COVID also really changed the Reno/Sparks market with so many companies and workers moving to the area. Thus, I see the Reno/Sparks market, in particular, a little insulated compared to other west coast markets. It seems like “Reno/Sparks” is now on the map.”

“(We) need to restart the influx of new businesses.”

“I don't see a 2008 repeat. But free money is gone.”

“The troubled bid-ask dilemma is amongst us and has brought investment transactions to an acute halt. Office vacancy is on the rise; there is no way around the negative force of work from home or hybrid strategies.”