



Real Estate Sentiment Index

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KEY POINTS

- The overall Real Estate Sentiment Index continues its positive trend from recent years, but shows a slight deterioration in current and future expectations.
- Most real estate sectors follow similar declining expectations, including the agricultural sector. This may reflect growing concerns over the national and state economies, and over potential tariffs affecting lumber and, subsequently, construction prices.
- The industrial sector has been a hot topic in the last couple of years with news of big deals taking place locally, yet current and future expectations may be showing a downturn.

The Real Estate Sentiment Index published by the Gazarian Real Estate Center is in its sixth consecutive year. A survey is sent to 2,000 real estate professionals to capture their sentiment regarding current and future local real estate market conditions. Starting in 2017, a fall survey was added to provide additional data points to better identify trends and fluctuating conditions. Responses form a weighted index for various real estate sectors ranging from 0 to 5 in sentiment as below:

Negative	0 to 1
Mildly negative	>1 to 2
Neutral	>2 to 3
Mildly positive	>3 to 4
Positive	>4 to 5

Overall Sentiment

The overall index in fall 2017 reflects a positive sentiment, while the six-month projected index indicates a slightly lower sentiment. Compared to results from spring 2017, respondents are slightly more optimistic about present and future market conditions. Relative to fall 2017, spring 2018 results indicate a 6% drop in the overall present sentiment to a mild positive, yet future expectations

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are marginally more optimistic. This is a turn in results from 2017, when future expectations were lower than present expectations. It is well known that the overall state of the economy and labor markets have a significant impact on sentiments about real estate markets. The slight overall sentiment deterioration at the beginning of 2018 may be attributed to concerns over the continuation of robust economic growth. (See Figure 1.)

Submarkets

While the current and six-month single-family indices reflect a positive sentiment, the year-over-year change reflects a 7% drop in the current sentiment and a 4% decline in future expectations. Rising home prices and a considerable supply shortage may be damping expectations. (See Figure 2.) We observe similar results in the multi-family sector. (See Figure 3.)

The agriculture indices in fall 2017 and spring 2018 reflect a mild positive sentiment for both the present and six-months indices. The spring 2017 to spring 2018 change does not reflect any increase in present expectations, but there is a considerable increase in how respondents expect agricultural markets to perform in six months. The fall 2017 to spring 2018 change results in a 10% drop in current expectations, yet no change in future expectations. The land index, on the other hand, reflects a slight deterioration in current and future expectations. The agricultural sector has been performing considerably well in the last few years, particularly from increased value in nuts production, yet concerns over water supply may be translating into uneasy expectations. (See Figures 4 & 5 on the following page.)

Figure 1
Overall Sentiment Index

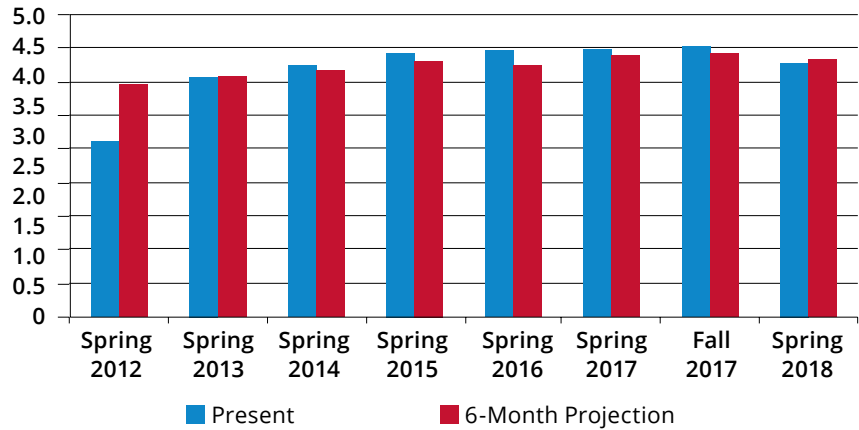


Figure 2
Single-Family Residential Sentiment Index

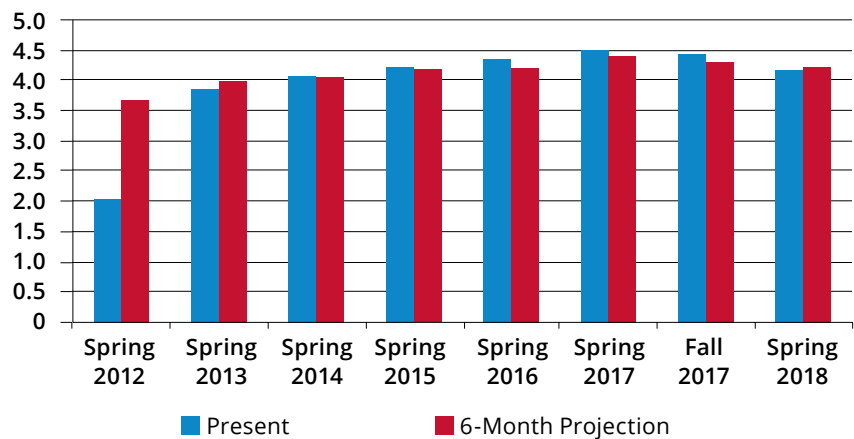
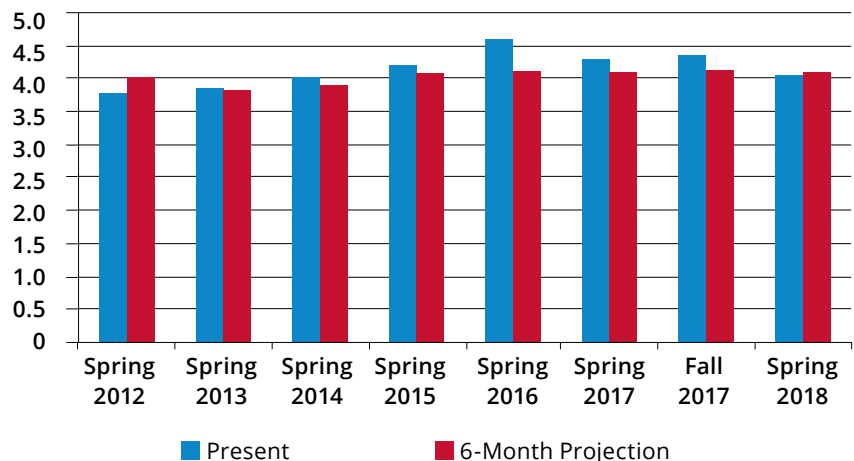


Figure 3
Multi-Family Sentiment Index



Real Estate *Sentiment Index*



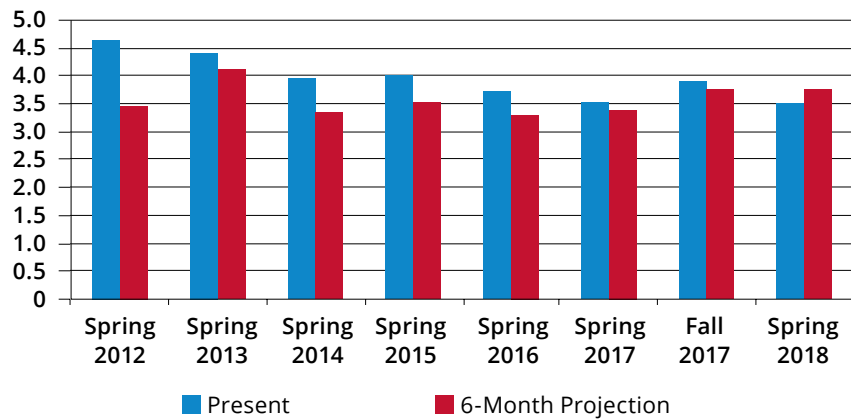
The office and retail indices in fall 2017 and spring 2018 reflect a mild positive sentiment for both the present and six-month expected sentiments. The office sector shows a 4% decline in current and future expectations from spring 2017 levels, while the retail sector reflects a 6% decline in present expectations and a 4% decline in future expectations. These sentiments are contrary to local reports, a condition that may reflect a relatively poor representation of these sectors in our survey. (See Figures 6 & 7.)

Industrial

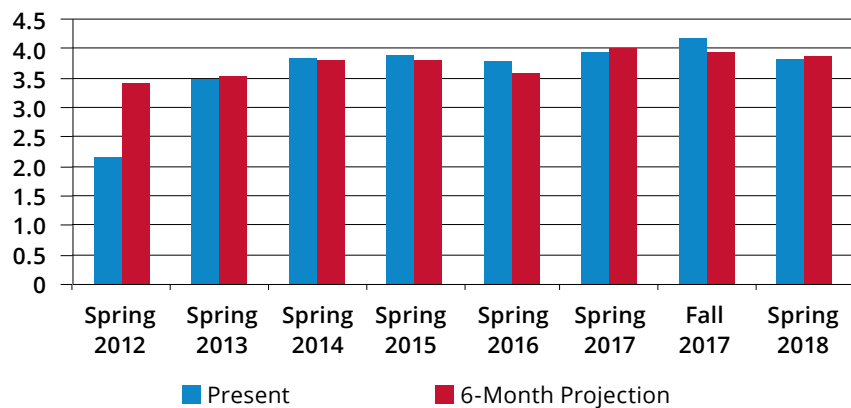
This section gives special attention to the industrial sentiment index. In spring 2018, the Gazarian Real Estate Center hosted an Industrial Real Estate Symposium at the Craig School. The event gathered experts from this booming sector. The keynote speaker was Dr. Randy Anderson, from Griffin Capital, and included presentations from Jason Quintel at Seefried Industrial Properties, Jim Terry at Ware Malcomb, and local expert Ethan Smith from Newmark Grubb Pearson. Presenters gave details about the current industrial sector, emphasizing some of the benefits to come from the Amazon and Ulta distribution center developments in Fresno County; these expectations have brought a new spark to this sector.

The industrial index in spring 2018 reflects a positive sentiment, though it comes at a 2% decline from spring 2017 levels. The six-month expectation is also positive,

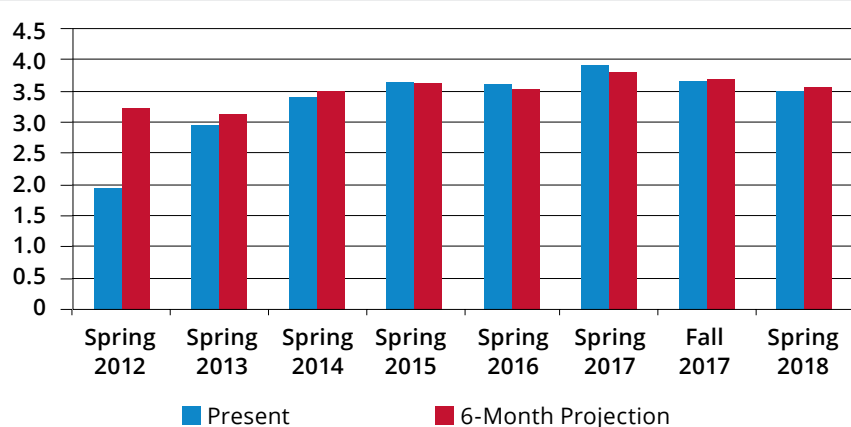
**Figure 4
Agriculture Sentiment Index**



**Figure 5
Land Sentiment Index**



**Figure 6
Office Sentiment Index**



FUTURE EXPECTATIONS
in most real estate sectors are **MARGINALLY LOWER RELATIVE TO PREVIOUS YEARS.**



Conclusions

This year we find that current and future expectations in most real estate sectors are marginally lower relative to previous years. This year it is observed that the potential slowdown in economic growth in the years to come is translating into uncertainty in local real estate market conditions. This is consistent with expectations across the nation, where signs of mild deterioration and gloomy growth expectations are affecting major markets.

References

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Figure 7
Retail Sentiment Index

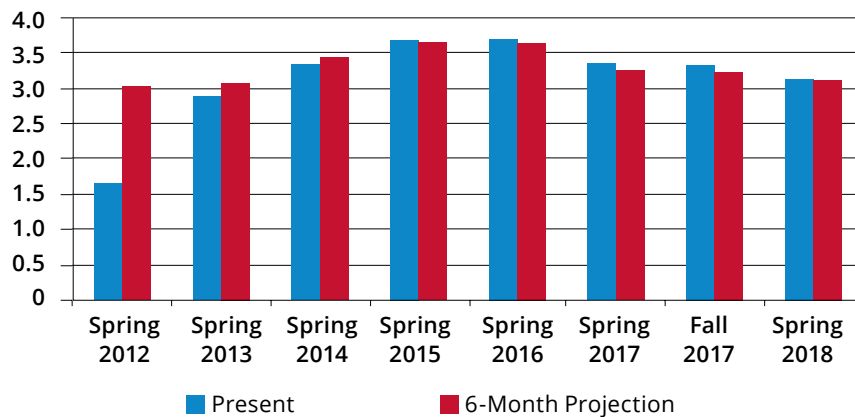
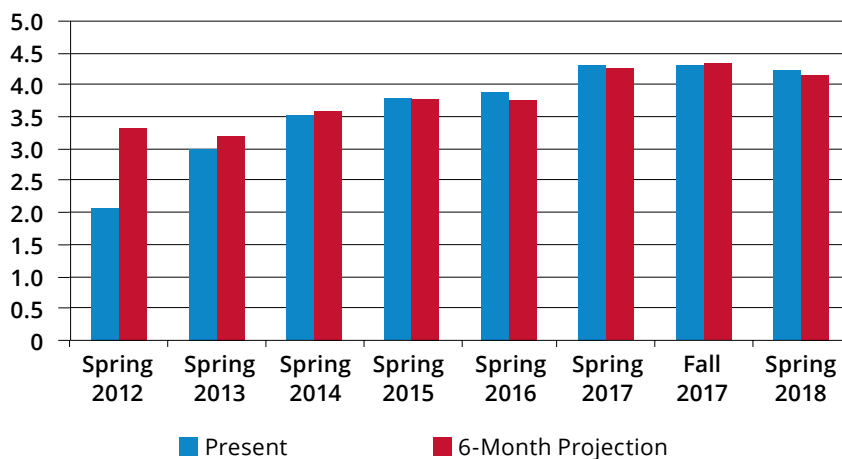


Figure 8
Industrial Sentiment Index



yet again reflects a slight deterioration. This is the first time in six years that current and future expectations show a decline. Other local industrial market indicators reflect an increase in average asking prices and rents per square foot, a considerable decrease in vacancy rates, and a flat availability of total inventory with concerns over the supply of quality space. Some local areas, though, are showing slight increases in inventory. Overall, the industrial real estate sector is showing signs of a slight slowdown from 2017 levels, most likely from an uncertain expectation regarding how the local economy will respond to the anticipated slowdown in economic growth as well as the full impact of the Amazon and Ulta deals. Companies wanting to do business with Ulta and Amazon will likely locate in the areas surrounding their buildings, creating demand for new or existing industrial space. (See Figure 8.)