



Real Estate *Sentiment Index*

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KEY POINTS

- The Fall 2019 Overall Real Estate Sentiment Index shows a slight improvement in current and future expectations relative to last year's performance.
- All real estate sectors follow similar increasing current sentiment expectations, yet future expectations are still lower. Once again, growing concerns over the national and state economies may be blighting future expectations.
- The agricultural sector has been a "hot" topic in the last few years with news of the potential impact of the Sustainable Groundwater Management Act.

Results from the Gazarian Real Estate Center's 2019 *Real Estate Sentiment Index* are just coming to light.

The now traditional survey intends to capture current and future sentiment about the local real estate economy. A survey is sent to approximately 1,500 professionals and their responses form a weighted index for various local real estate market 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 sentiment index in Fall 2019 regarding current conditions was 3.89, which reflects a mildly positive sentiment (Figure 1). This value represents a 14% increase from the Fall 2018 sentiment index value. We may be observing an improvement in sentiment relative to previous years, although overall future expectations (as measured by the six-month

FALL 2019 SINGLE-FAMILY RESIDENTIAL INDEX REFLECTS A POSITIVE SENTIMENT.



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projection) are still lower than current sentiment. The Fall 2019 projected overall sentiment is 9% lower than the current overall sentiment, yet almost 8% higher than the Fall 2018 projected sentiment. Last year, we indicated that concerns over the state of the economy might be dampening real estate market sentiments. We can argue that this year, the current state of the economy is keeping people surprisingly content, but uncertainty and concerns over a potential economic slowdown still blights future sentiments.

Submarkets

The present single-family residential index in Fall 2019 reflects a positive sentiment, while the 6-month projected index indicates a mildly positive sentiment (Figure 2). Last year, we reported a significant drop in the year-over-year change for this index. This year, we observe a 24% increase in the current sentiment and a 16% increase in the future sentiment index. We asked survey participants about their future expectations on mortgage rate changes. Almost 50% of respondents do not expect any changes, while 27% expect decreases and 27% expect increasing rates. We also asked for their expectation on the best real estate sector investment potential. Multi-family residential and single-family residential resulted in the highest percentage, with 27% and 18% of respondents, respectively.

Last year, we highlighted sentiment performance in the real estate industrial sector. We indicated a slight slowdown from the previous years of continuous upheaval. This year, we notice an improvement in sentiment. The Fall 2019 current industrial

Figure 1
Overall Sentiment Index

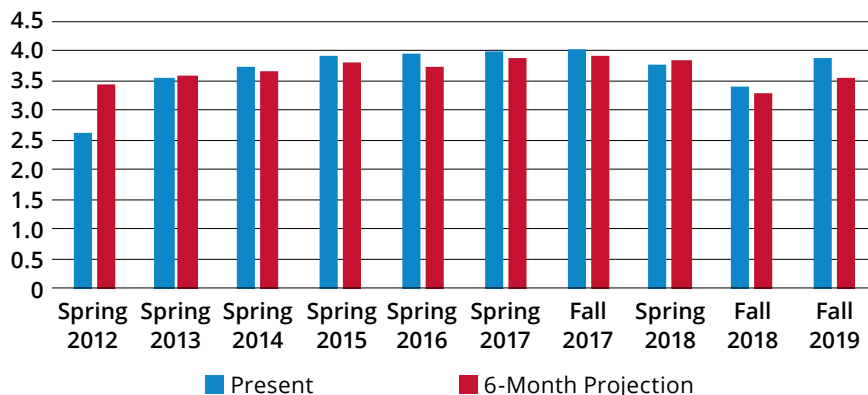


Figure 2
Single-Family Residential Sentiment Index

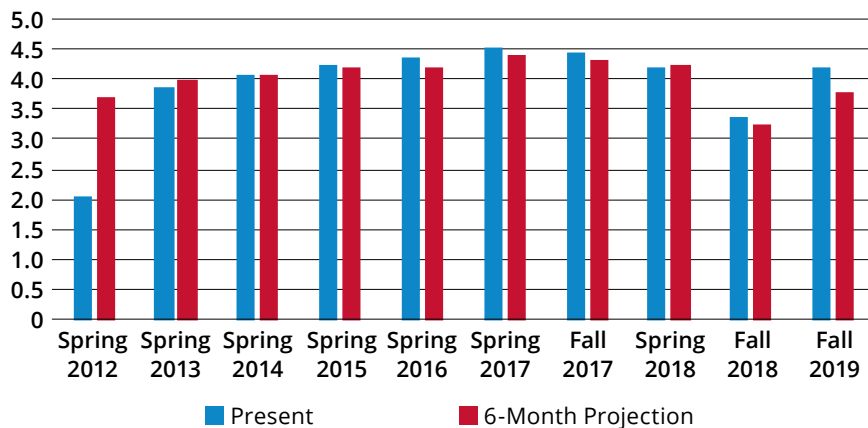
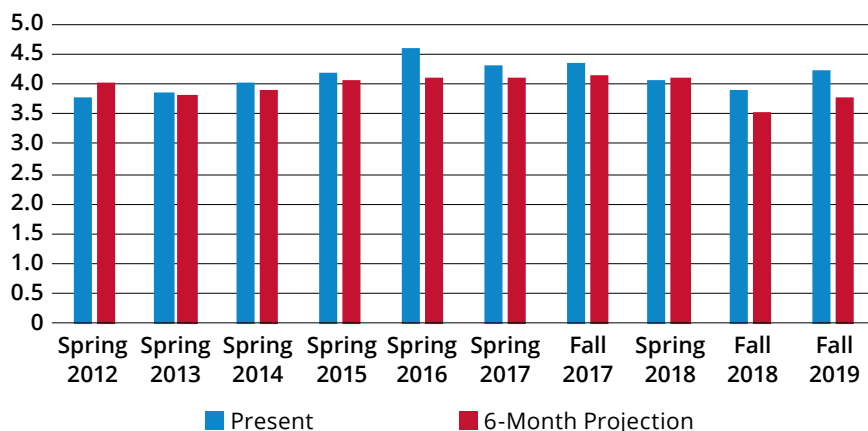


Figure 3
Multi-Family Sentiment Index



Real Estate *Sentiment Index*



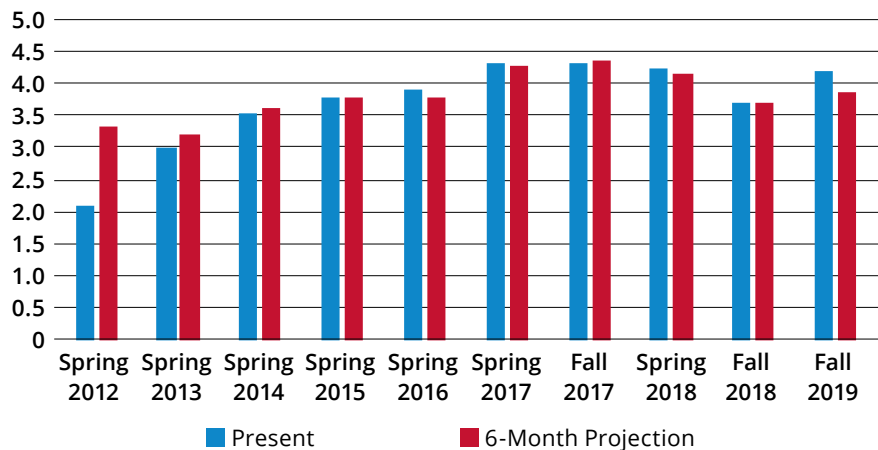
sentiment index resulted in a 13% increase from Fall 2018, and a 4% increase of the future sentiment over the same period (Figure 4). Asking rents have stabilized while vacancy rates remain consistently low, indicating that the market is still showing signs of potential improvement as new construction becomes available.

Similar to last year, the office and retail sentiment indices in Fall 2018 and Fall 2019 reflect a mildly positive sentiment. The office sector (Figure 5) shows a 12% and 10% increase in current and future expectations from their Fall 2018 levels, while the retail sector (Figure 6) reflects a 15% increase in present expectations and an 11% increase in future expectations.

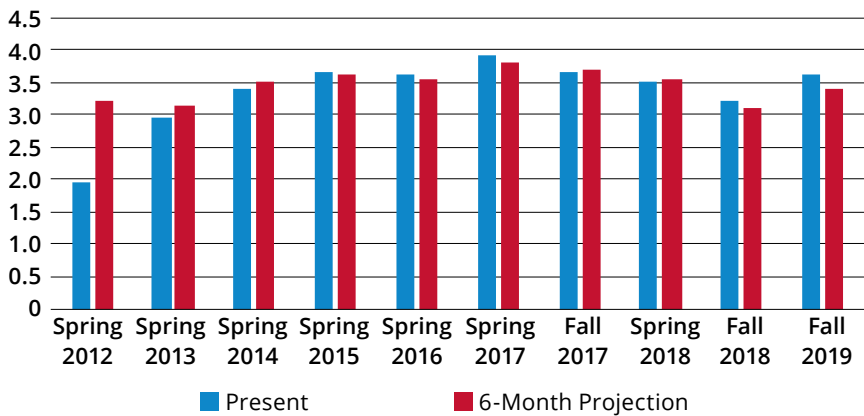
Agricultural and Land

In this section, we give special attention to the Agricultural and Land Indices (Figures 7 and 8). In spring 2019, the Gazarian Real Estate Center hosted an *Agricultural Investment Symposium*. The event gathered experts in the agricultural sector, particularly representatives from institutional agricultural investors. The keynote speaker was Stan Xavier, a well-known Fresno appraiser. His presentation was followed by Jamie Shen, Chief Investment Officer at PGIM Agricultural Investments, and Dr. Srinu Konduru, Chair of the Department of Agricultural Business at Fresno State. Presenters gave their valuable insights on the current state of the agricultural real estate sector, particularly the uncertainty the Sustainable Groundwater

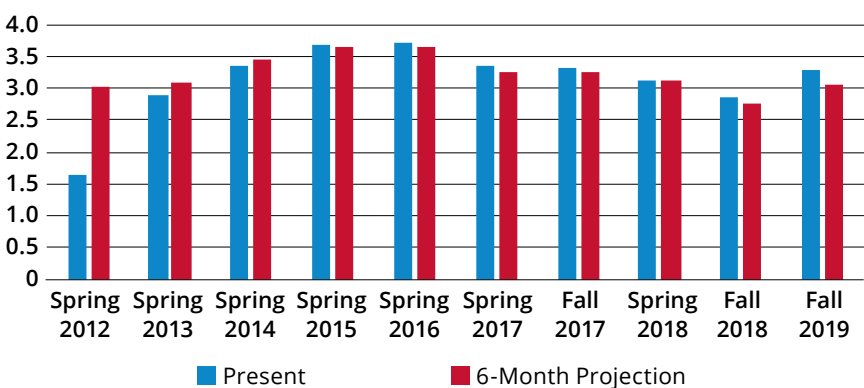
**Figure 4
Industrial Sentiment Index**



**Figure 5
Office Sentiment Index**



**Figure 6
Retail Sentiment Index**



**CURRENT
AND FUTURE
SENTIMENTS
IN ALL REAL
ESTATE SECTORS
ARE SLIGHTLY
HIGHER.**



Conclusions

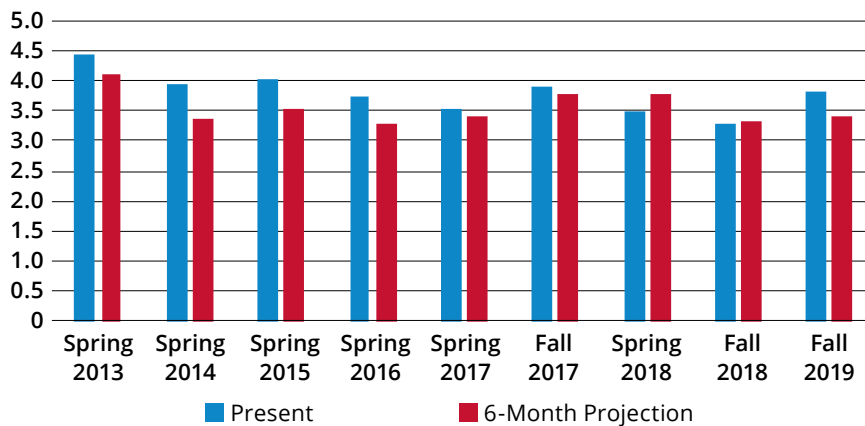
Consistent with the mission of the Gazarian Real Estate Center to provide information that promotes investment opportunities in Central California, the *Real Estate Sentiment Index* is a great tool to capture sentiment about the state of the local real estate economy. We encourage local and outside investors to use this index in combination with other market statistics to realize local potential business opportunities.

This year, we find that current and future sentiment in all real estate sectors are slightly higher relative to last year. The current overall sentiment across all real estate sectors is mildly positive, but future expectations are marginally blighted by uncertain market conditions. We can argue that a Presidential election in late 2020, coupled with a potential slowdown in economic growth, and uncertainty about the Valley's groundwater situation, may be creating a "wait-and-see" atmosphere affecting not only real estate markets but the whole economy.

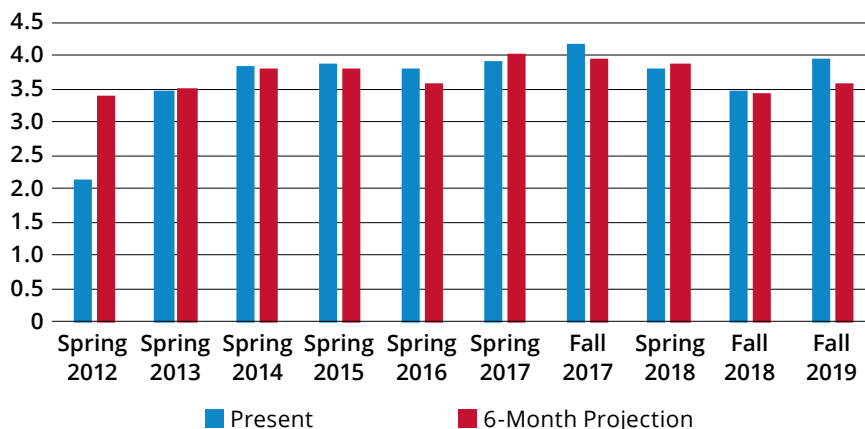
References

Newmark Pearson Commercial Fresno Area Office and Industrial Market Trends Reports, <https://www.newmarkpearson.com/reports.html>

**Figure 7
Agriculture Sentiment Index**



**Figure 8
Land Sentiment Index**



Management Act (SGMA) has placed on current and future land values. For institutional investors, one of the most important attributes when looking at potential land investments in California is water security. Potential investment properties not only need a steady supply of water, but also the availability of water from multiple sources (ground and surface).

The current and six-month projected indices for land and agriculture are mildly positive, with the land index being slightly higher than agriculture's. However, for land and agriculture, the six-month projected indices are both 10% lower than the current index. These values may reflect uncertainty over the state of the agricultural markets, particularly concerns over the availability of water and the uncertain impact of the SGMA on land and agricultural markets.