# 2Q24 Fear and Greed Survey

JOHN BURNS RESEARCH & CONSULTING

CRE Daily

September 20, 2024

# About this report

Conducted jointly by John Burns Research and Consulting and CRE Daily, the Fear and Greed Index examines current commercial real estate investor sentiment and expectations over the next 6 months, as well as changes in access to capital and asset values. The 2Q24 report is based on findings from 939 members of the commercial real estate community across four primary sectors:

**Multifamily** **Industrial** **Retail** **Office**

*The 2Q24 Fear and Greed Index survey ran from August 19–September 4. Responses, commentary, and sentiment reflect the latest shifts across commercial real estate.*

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# Fear and Greed Survey


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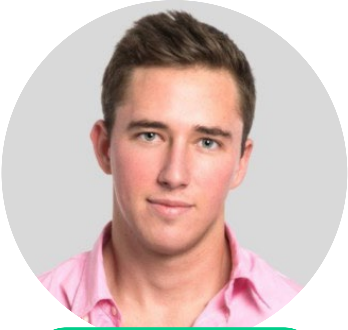

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# We are pleased to share the 2Q24 Burns + CRE Daily Fear and Greed Index.

## Overview of the Fear and Greed Index (FGI)

FGI

**The Fear and Greed Index measures investor sentiment across the US commercial real estate industry.** As a composite diffusion index, ratings above 55 indicate industry **expansion (greed)**; ratings below 45 indicate industry **contraction (fear)**. Ratings between 45 and 55 indicate a more balanced market.

The Fear and Greed Index is calculated as a weighted average of 3 sub-indices:

### Current Investment Strategy Index

Increasing/holding/decreasing exposure in the **current quarter** vs. the prior quarter

### Expected Investment Strategy Index

Expect to increase/hold/decrease exposure over the **next 6 months**

### Access to Capital Index

Easier/similar/harder to access capital in the **current quarter** vs. the prior quarter

## Fear and Greed Index Rating

**53**

out of 100

The Fear and Greed Index is at **53** out of 100, indicating a **balanced** commercial real estate market.

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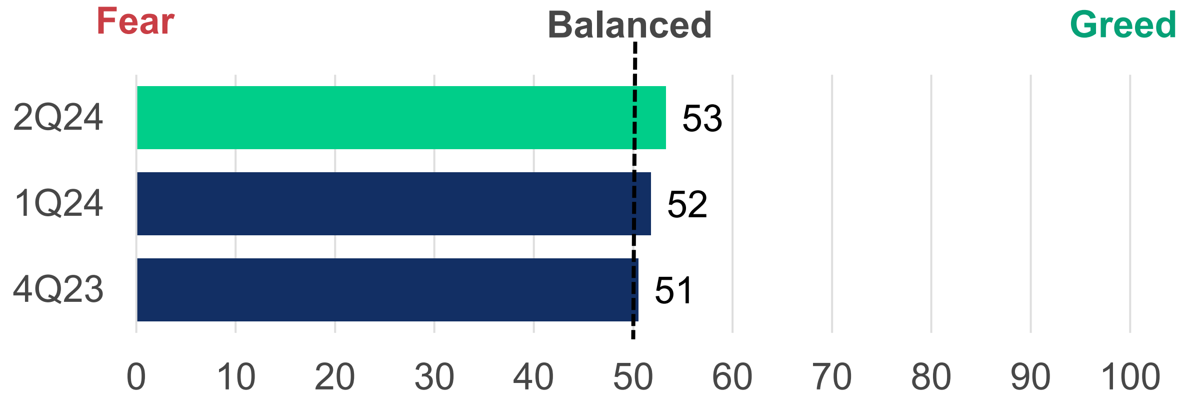
Conducted jointly by John Burns Research and Consulting and CRE Daily, the 2Q24 index reflects findings from 939 commercial real estate investors across four main sectors: **multifamily**, **industrial**, **retail**, and **office**.

Sources: John Burns Research and Consulting, LLC; CRE Daily (Data: Aug-24, Pub: Sep-24)

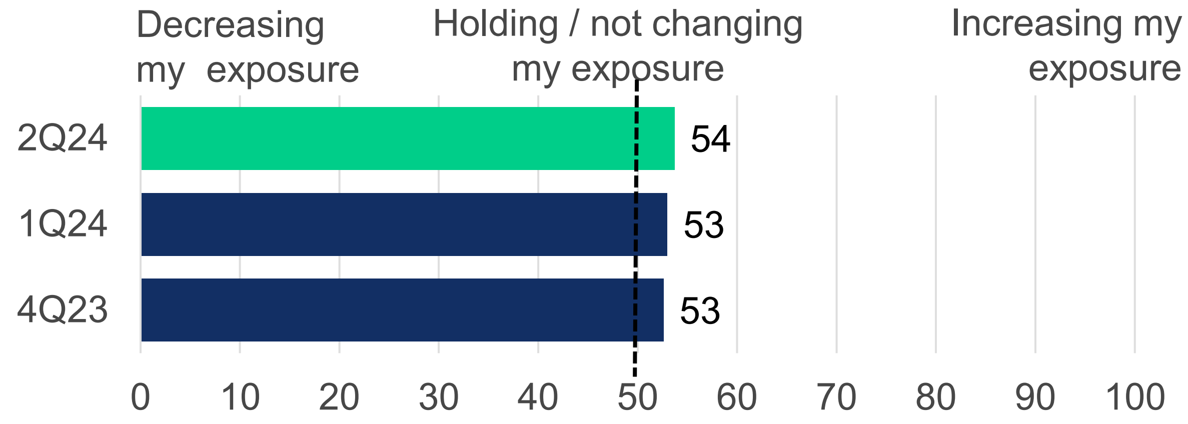
# The Fear and Greed Index measures investor sentiment across 4 commercial real estate sectors.

On a diffusion index, a value above 55 indicates expansion, while a value below 45 implies contraction.

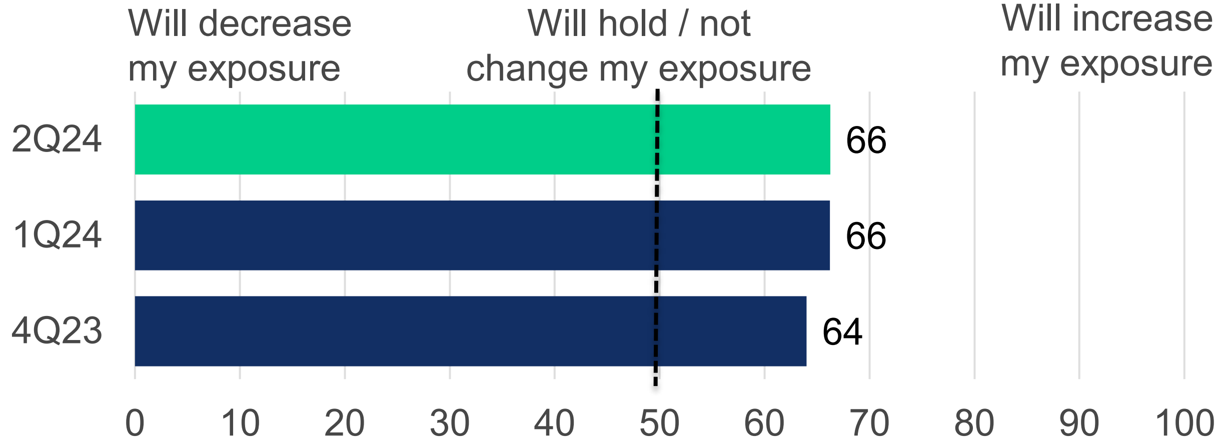
## Burns + CRE Daily Fear & Greed Index



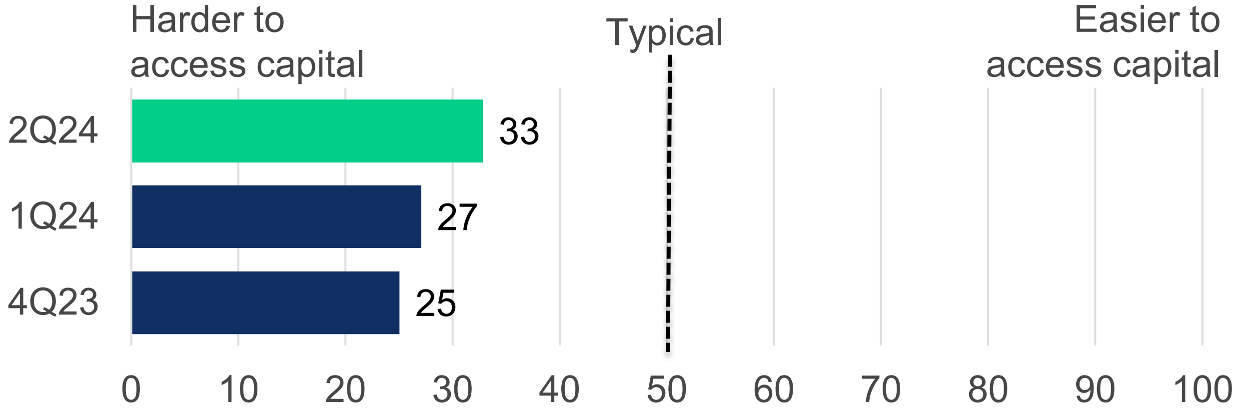

## Current CRE Investment Strategy Index




## Expected CRE Investment Strategy Index: Next 6 Months




## Access to CRE Capital Index (2Q24 vs. 1Q24)

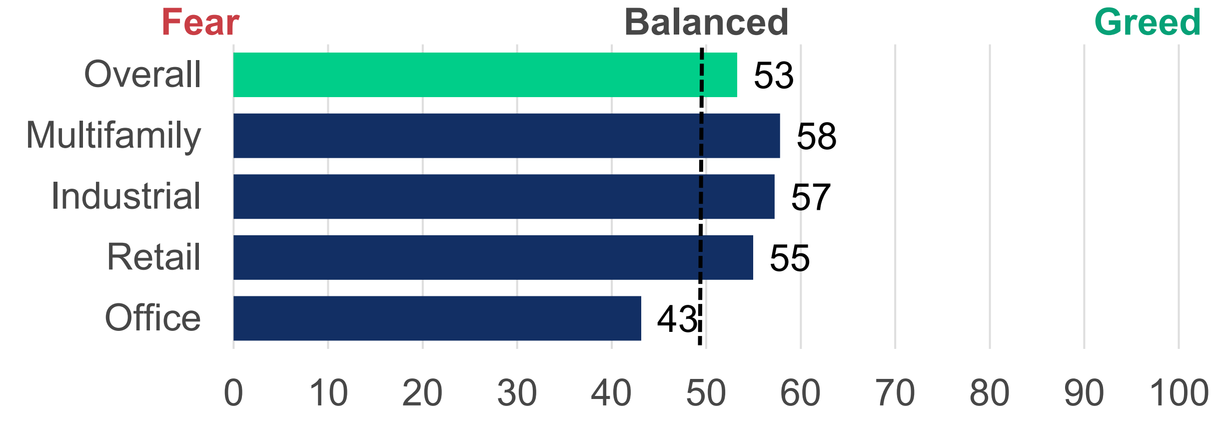



Sources: John Burns Research and Consulting, LLC; CRE Daily (Data: Aug-24, Pub: Sep-24)

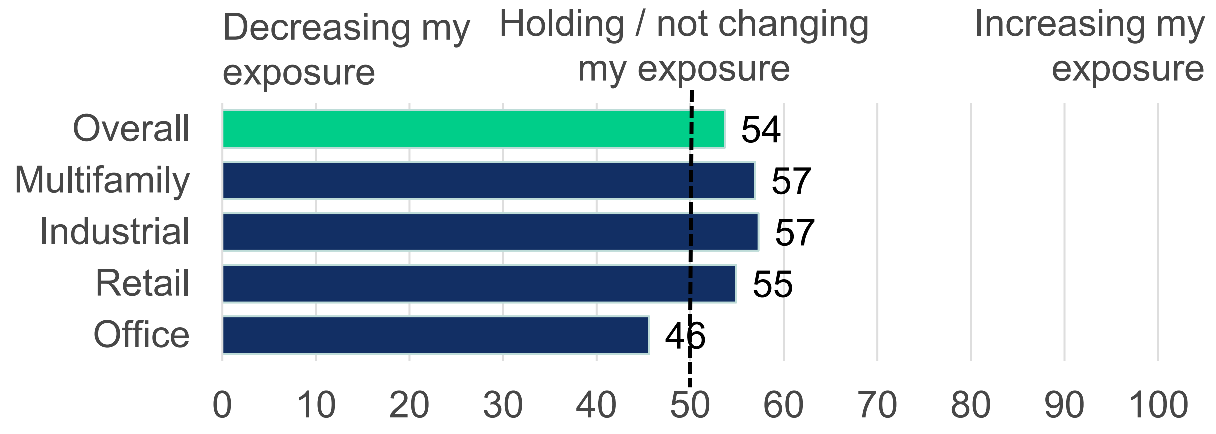
# The Fear and Greed Index measures investor sentiment across and within 4 commercial real estate sectors.

On a diffusion index, a value above 55 indicates expansion, while a value below 45 implies contraction.

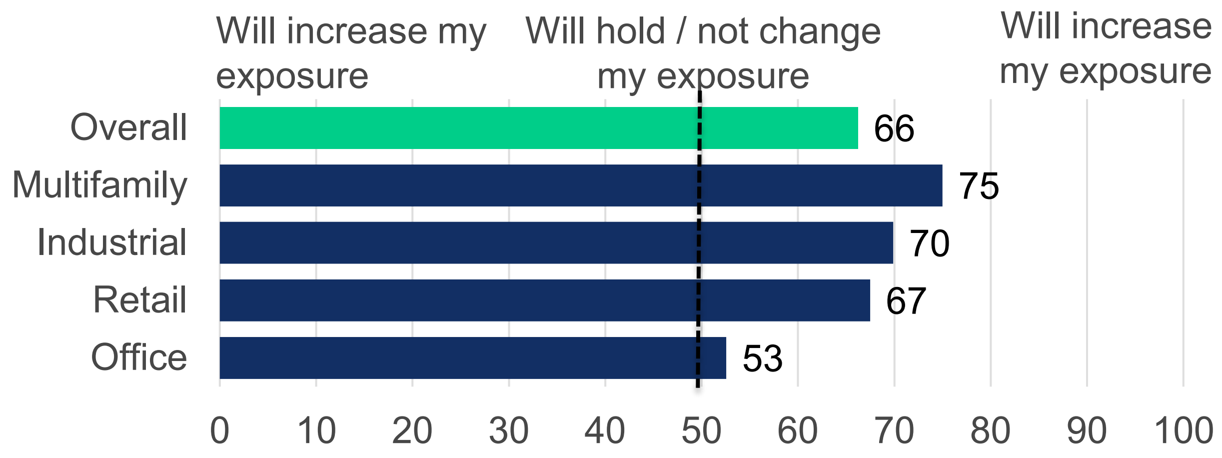
## Burns + CRE Daily Fear & Greed Index



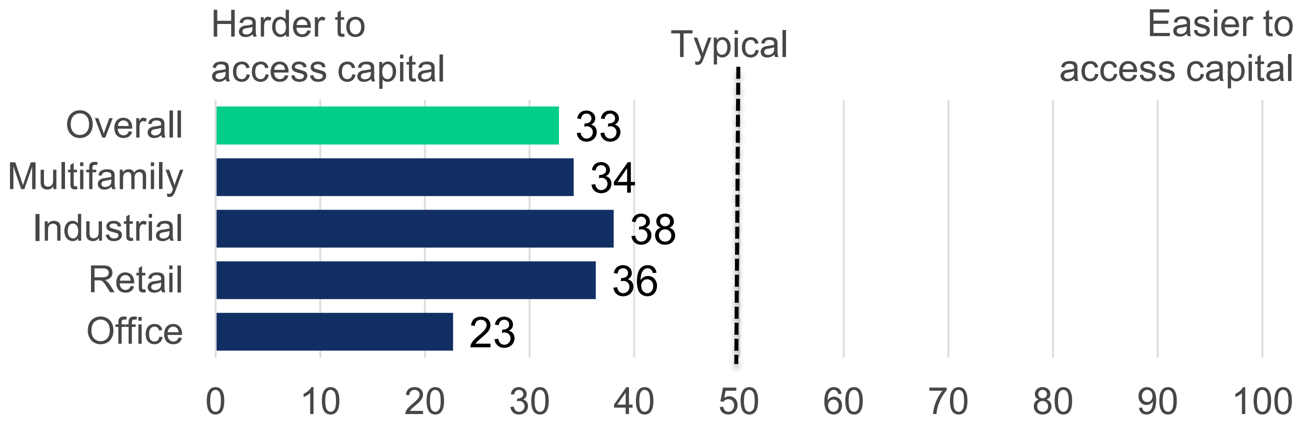

## Current CRE Investment Strategy Index




## Expected CRE Investment Strategy Index: Next 6 Months



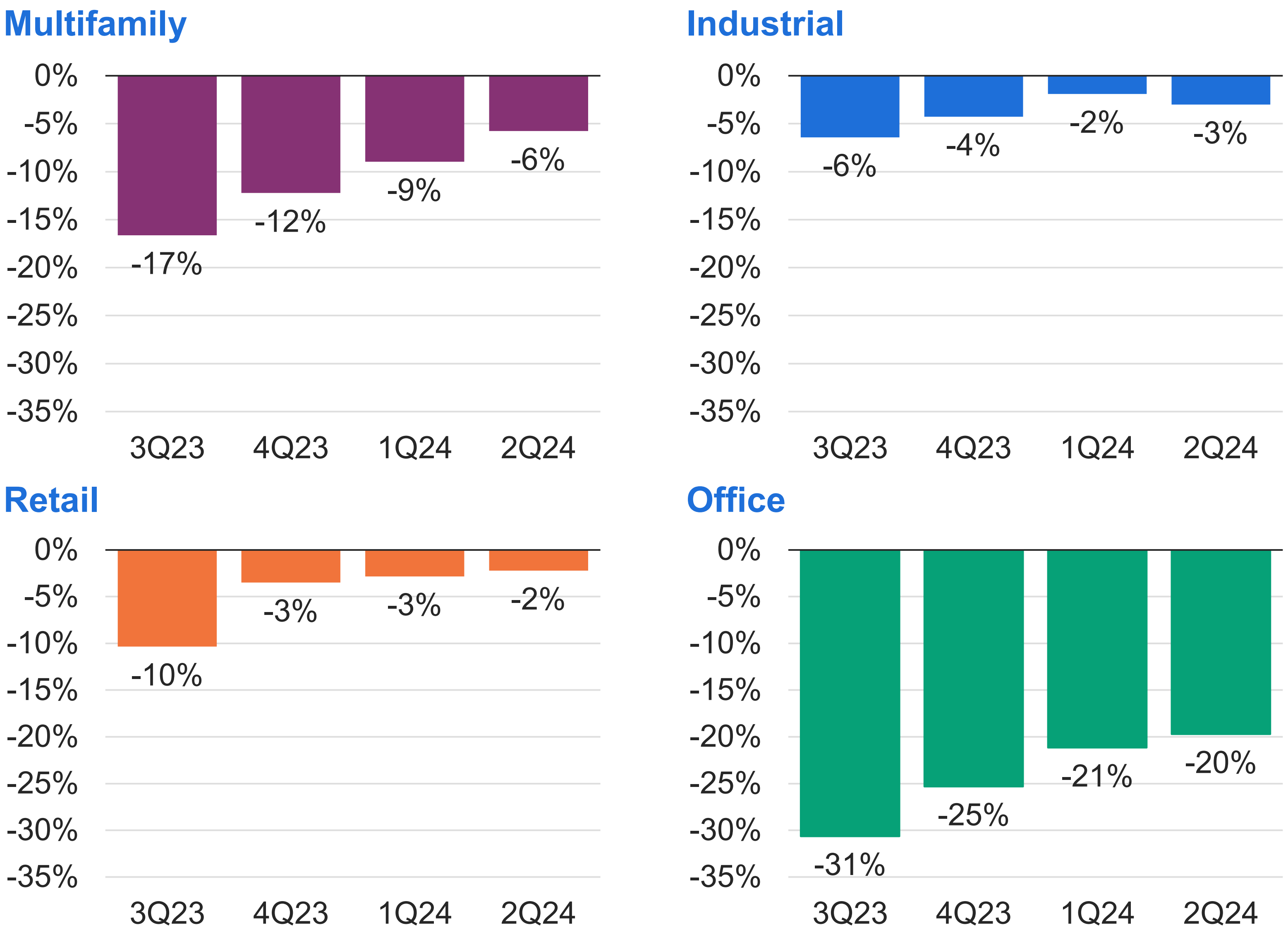

## Access to CRE Capital Index (2Q24 vs. 1Q24)




Sources: John Burns Research and Consulting, LLC; CRE Daily (Data: Aug-24, Pub: Sep-24)

# Investors believe asset values have fallen YOY in every major CRE sector.

## Change in Values by Asset Class (% YOY)



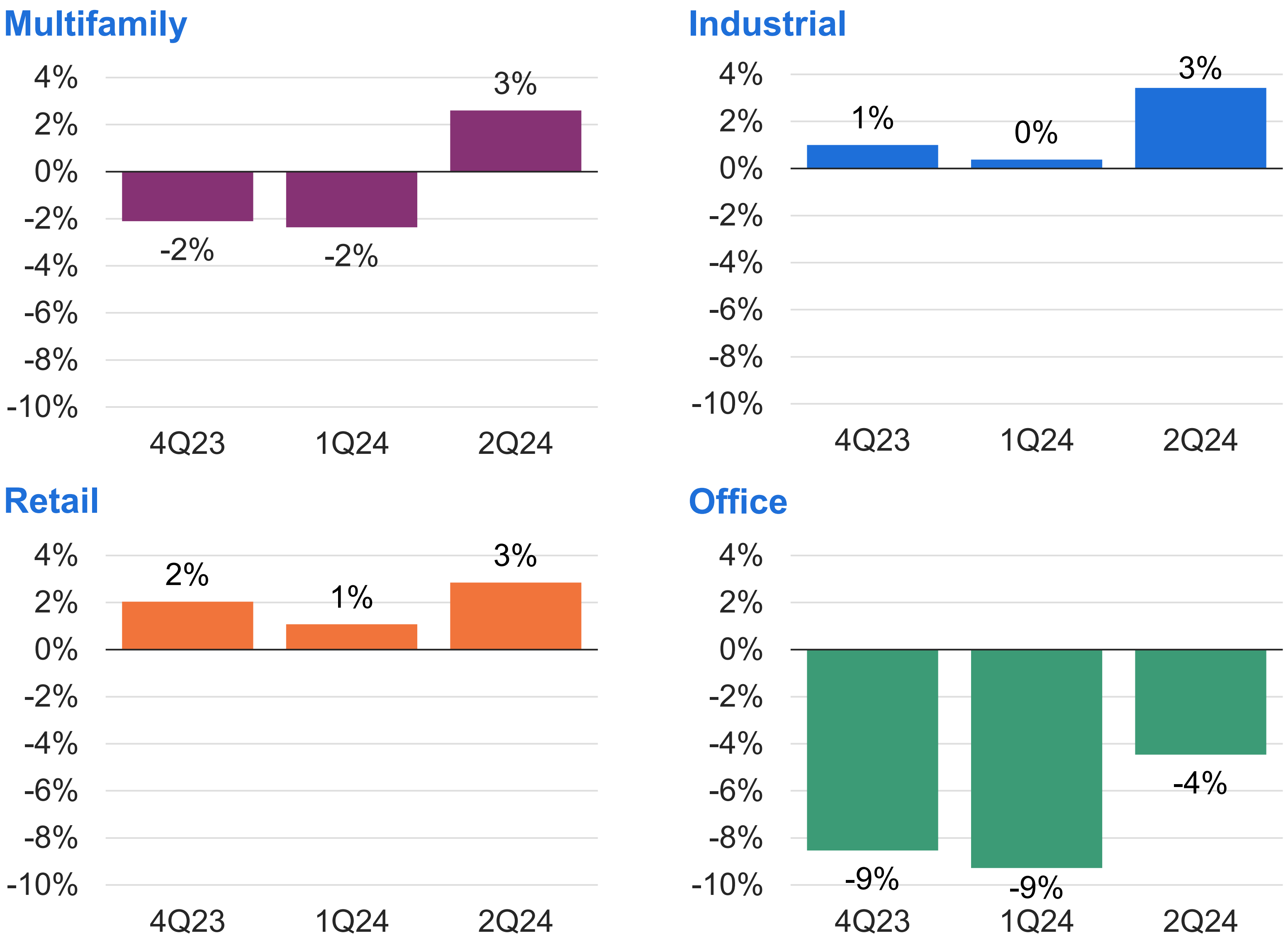

Sources: John Burns Research and Consulting, LLC; CRE Daily (Data: Aug-24, Pub: Sep-24)

Investors believe values fell most in the office sector (-20% YOY) and least in the retail and industrial sectors.

However, investors across the multifamily, retail, and office sectors believe YOY asset value declines are less severe than in prior quarters—a sign of improvement.

# Investors believe that office asset values will fall further in 2024.

## Expected Change in Values by Asset Class (Next 6 Months)



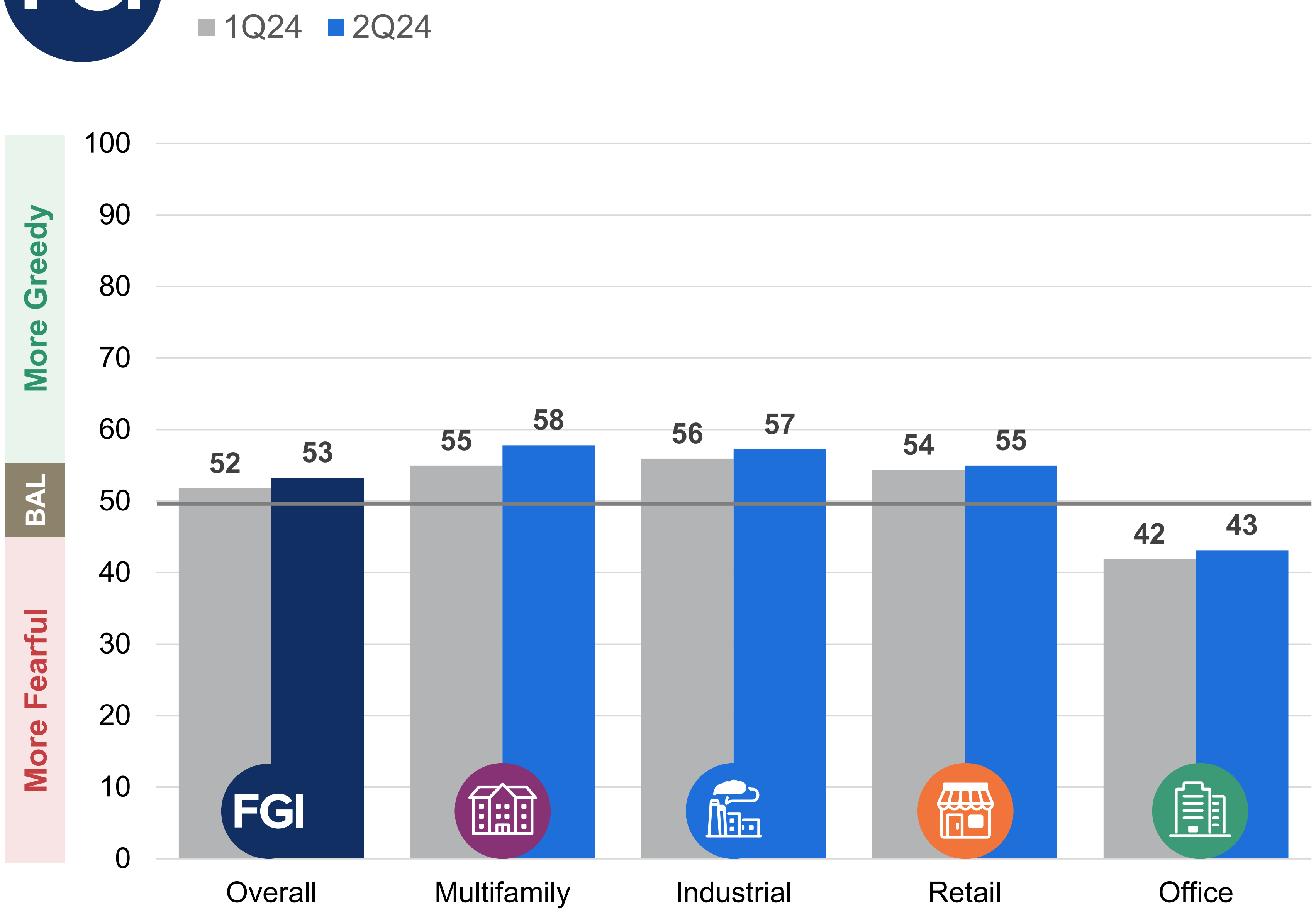

Industrial, retail, and multifamily investors expect asset values to rise +3% over the next 6 months, an improvement from last quarter.

- Multifamily investors now expect asset value growth over the next 6 months for the first time in our survey.

"Broadly, this is the bottom on the pricing side, and we will see a massive uptick in sales pricing as interest rates go down."
- Texas investor

Sources: John Burns Research and Consulting, LLC; CRE Daily (Data: Aug-24, Pub: Sep-24)

# Burns + CRE Daily Fear and Greed Index (2Q24)




The Fear and Greed Index—a leading indicator for commercial real estate investment activity—rated 53 on a 100-point scale in 2Q24, indicating a market that is balanced between excessive fear and exuberance.

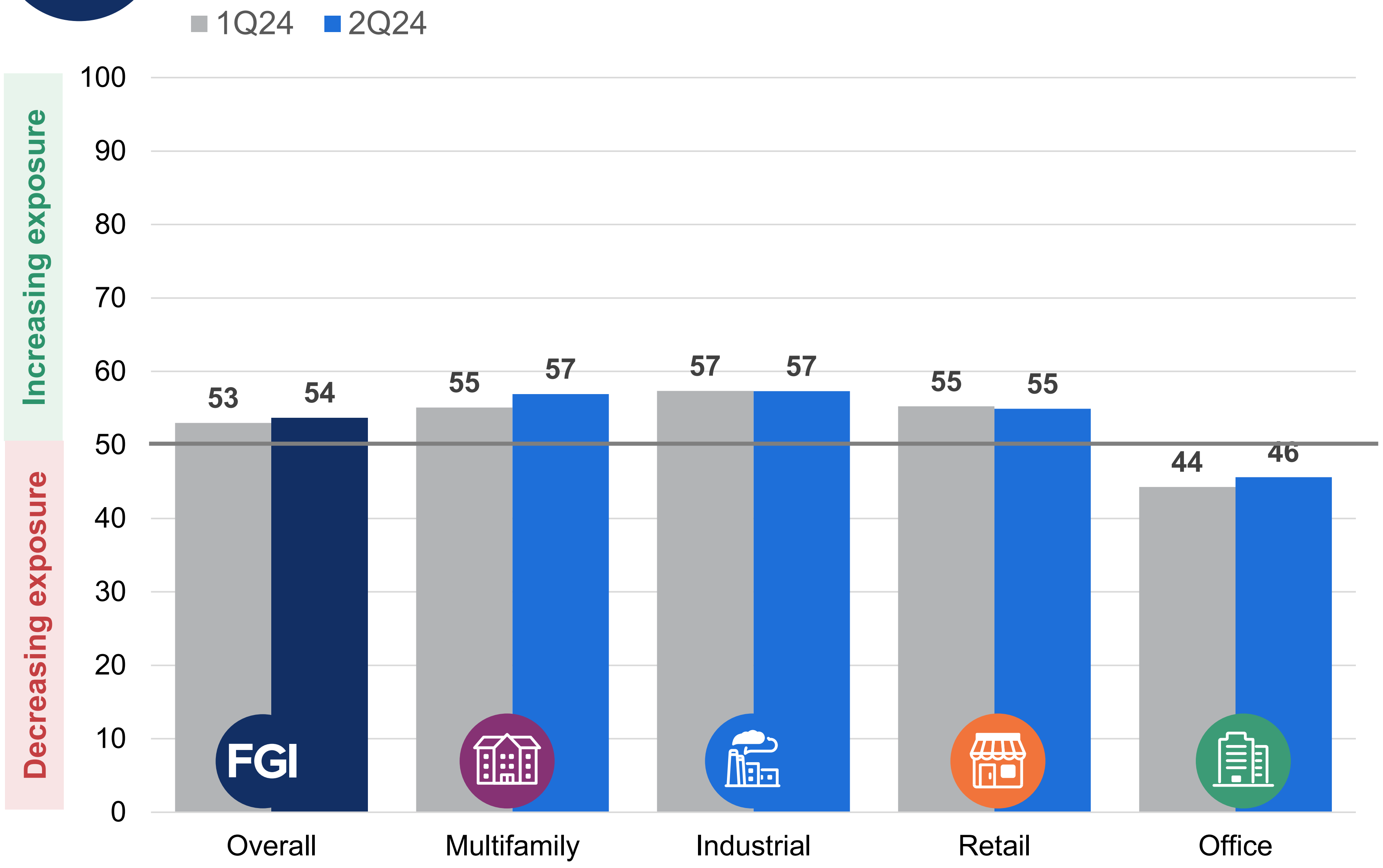
Multifamily, industrial, and retail real estate investors are more open to risk, while office investors are more cautious.

*Note: Ratings above 55 indicate more "greed" among commercial real estate investors (expanding CRE market), while ratings below 45 indicate more "fear" among CRE investors (contracting CRE market). A rating between 55 and 45 indicates a balanced market (denoted by BAL in the graph's y-axis labels).*

Sources: John Burns Research and Consulting, LLC; CRE Daily (Data: Aug-24, Pub: Sep-24)

# Current CRE Investment Strategy Index (2Q24)

Measures the share of commercial real estate investors increasing, decreasing, or holding their investment exposure to commercial real estate sectors during the most recent quarter




A greater share of investors are increasing their investment exposure vs. decreasing in most sectors.

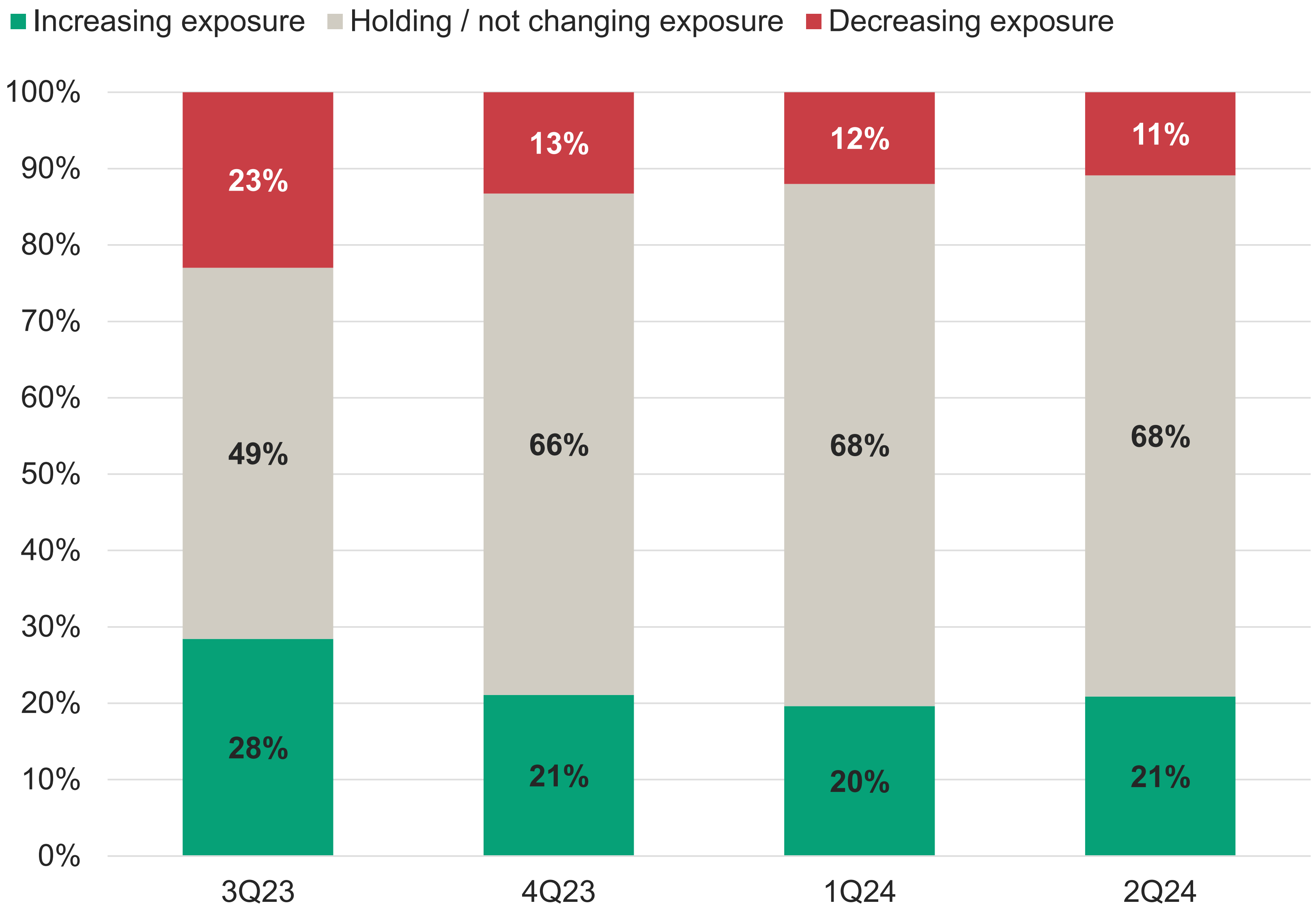
The office sector is the exception, though conditions improved slightly in 2Q24 relative to 1Q24.

*Note: Ratings above 55 indicate that more investors are increasing than decreasing their investment exposure, while ratings below 45 indicate that more investors are decreasing than increasing their investment exposure.*

Sources: John Burns Research and Consulting, LLC; CRE Daily (Data: Aug-24, Pub: Sep-24)

# 68% of commercial real estate investors are holding tight in 2Q24, flat from last quarter.

## Current Commercial Real Estate Investment Strategy

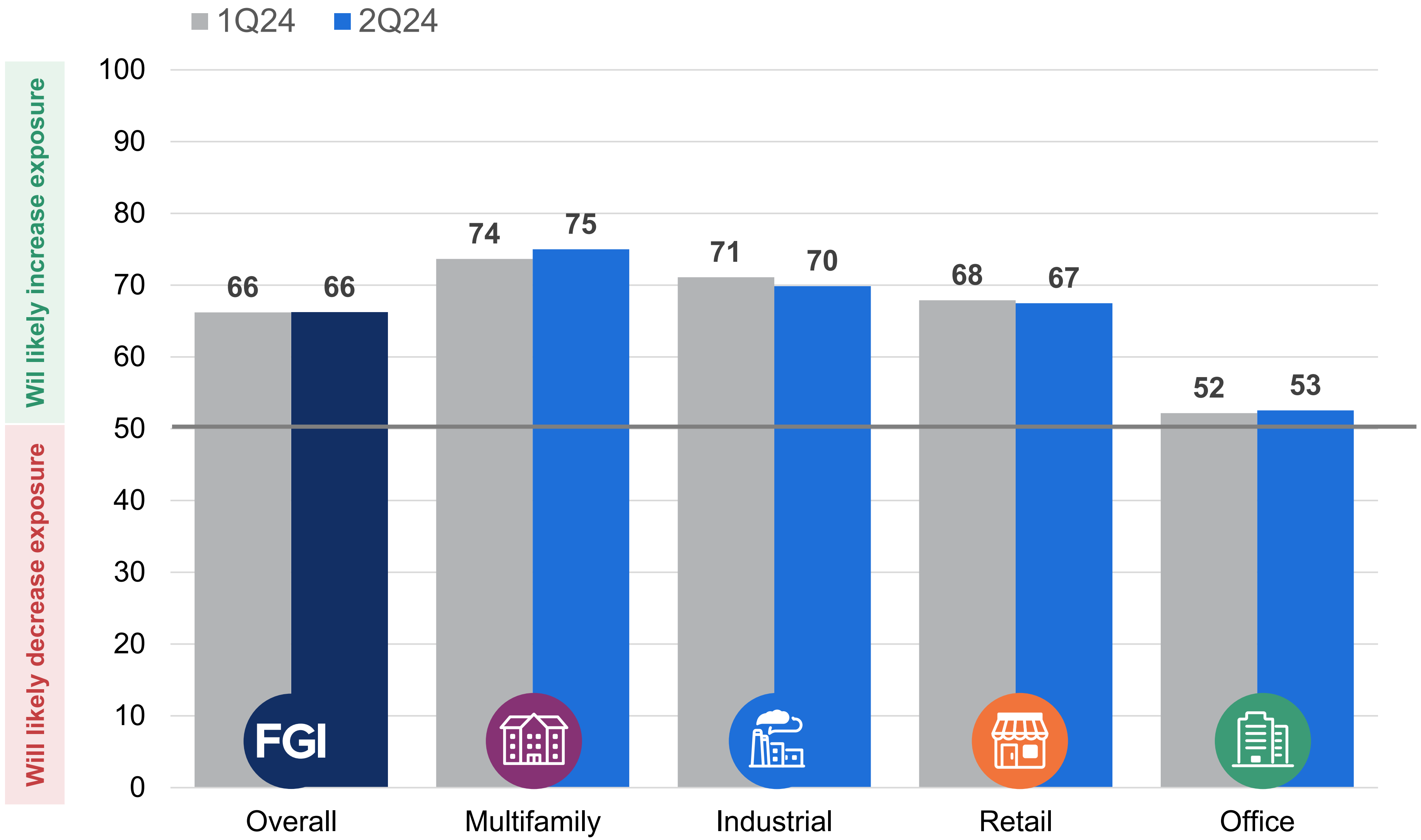



Most commercial real estate investors are in wait-and-see mode due to uncertainty.

Sources: John Burns Research and Consulting, LLC; CRE Daily (Data: Aug-24, Pub: Sep-24)

# Expected CRE Investment Strategy Index: Next 6 Months (2Q24)

Measures the share of commercial real estate investors that expect to increase, decrease, or hold their investment exposure to commercial real estate sectors over the next 6 months




In all sectors, more investors expect to increase than decrease their CRE exposure over the next 6 months.

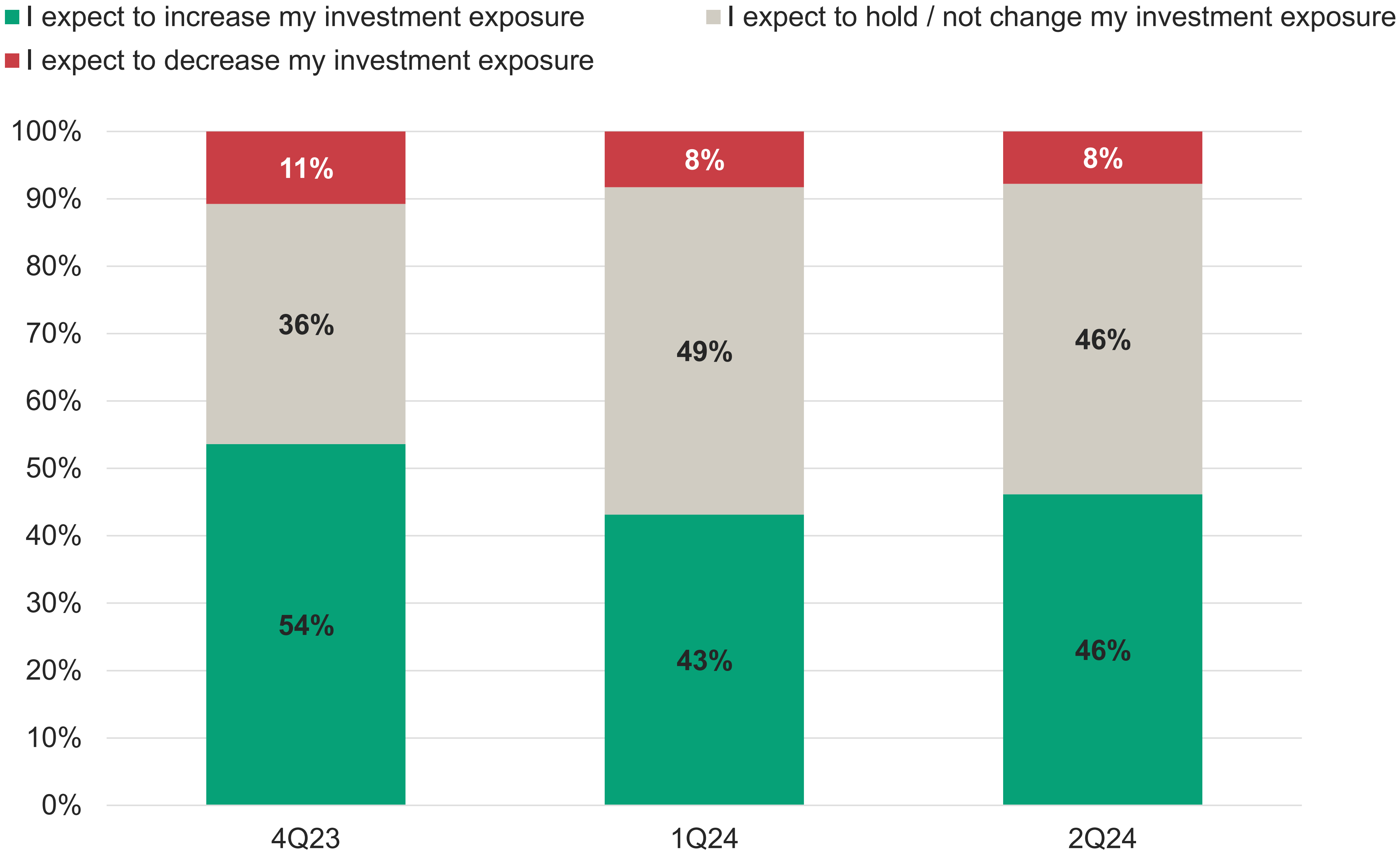
Flat quarter-over-quarter index values reflect steady optimism from CRE investors regarding conditions over the next 6 months.

*Note: Ratings above 50 indicate that more investors expect to increase than decrease their investment exposure over the next 6 months, while ratings below 50 indicate that more investors expect to increase rather than decrease their investment exposure over the next 6 months.*

Sources: John Burns Research and Consulting, LLC; CRE Daily (Data: Aug-24, Pub: Sep-24)

# Nearly half (46%) of CRE investors expect to increase their investment exposure over the next 6 months.

## Expected Commercial Real Estate Investment Strategy (Next 6 Months)




Expectations of lower rates are bolstering investor optimism:

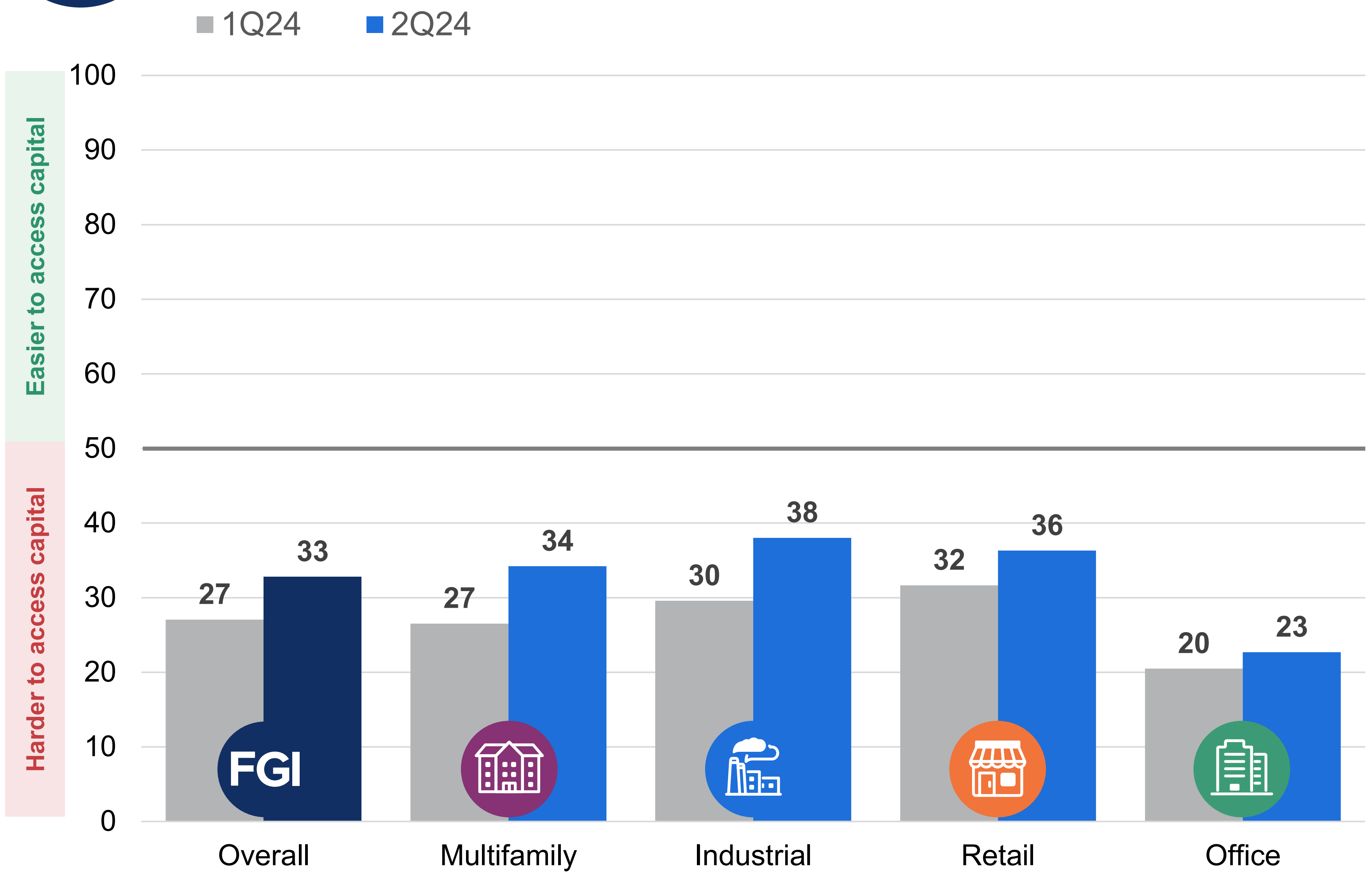
"Commercial, except for office, has been quite resilient. I think we are near the bottom, and post-election with a few fed rate cuts will be a large tailwind for the industry."

- Northeast investor

Sources: John Burns Research and Consulting, LLC; CRE Daily (Data: Aug-24, Pub: Sep-24)

# Access to CRE Capital Index (2Q24)

Measures the share of commercial real estate investors who found it easier, harder, or roughly the same to access capital in the current quarter versus the prior quarter



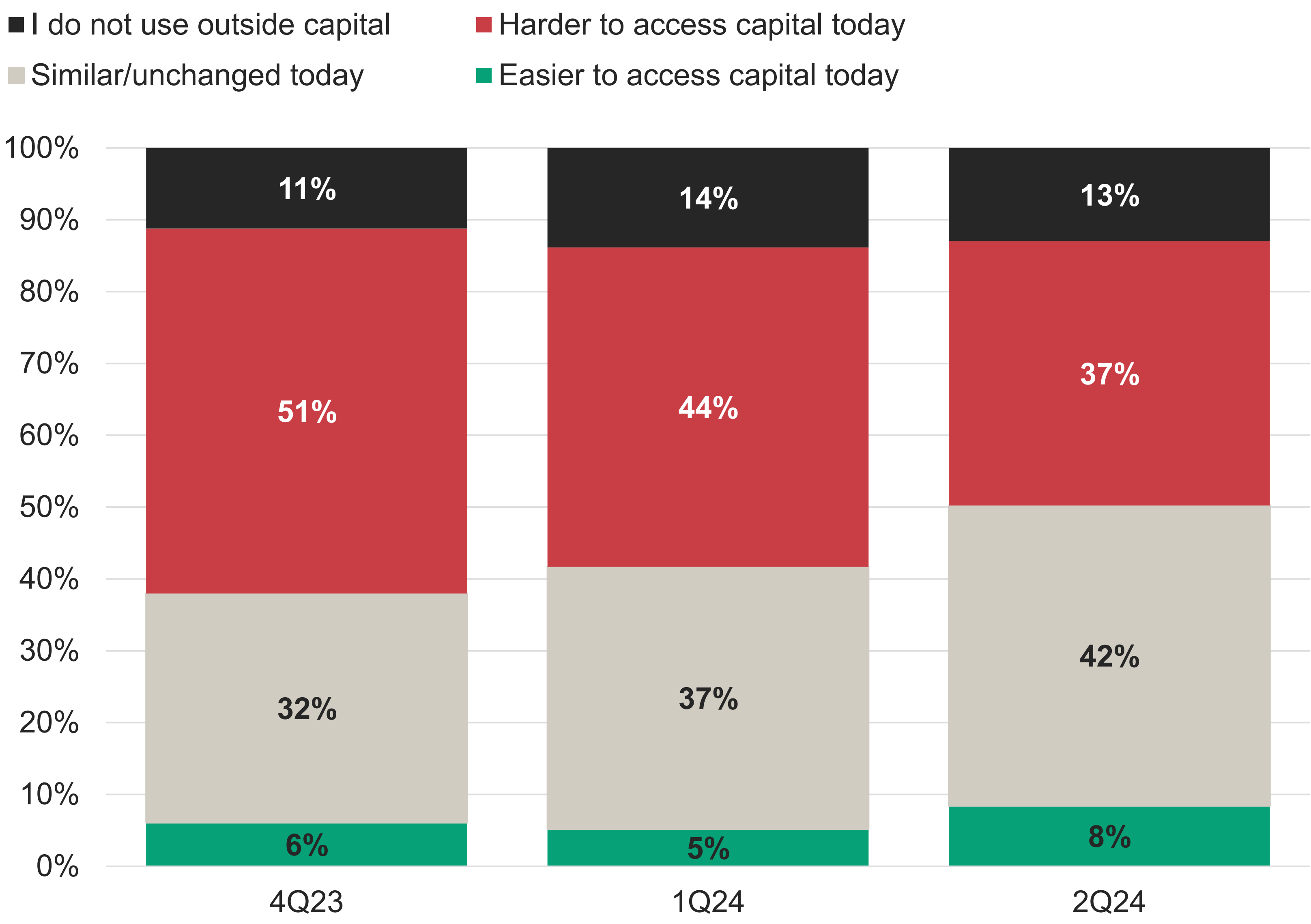

Credit conditions are tight across all CRE sectors, though investors note an improvement in their ability to access capital in 2Q24 relative to 1Q24.

*Note: Ratings above 50 indicate that more investors found it easier to access capital in the current quarter vs. the prior quarter, while ratings below 50 indicate that more investors found it harder to access capital in the current quarter vs. the prior quarter.*

Sources: John Burns Research and Consulting, LLC; CRE Daily (Data: Aug-24, Pub: Sep-24)

# 8% of CRE investors report easier access to capital in 2Q24 relative to 1Q24, a slight improvement.

## Access to Capital for Commercial Real Estate vs. Prior Quarter

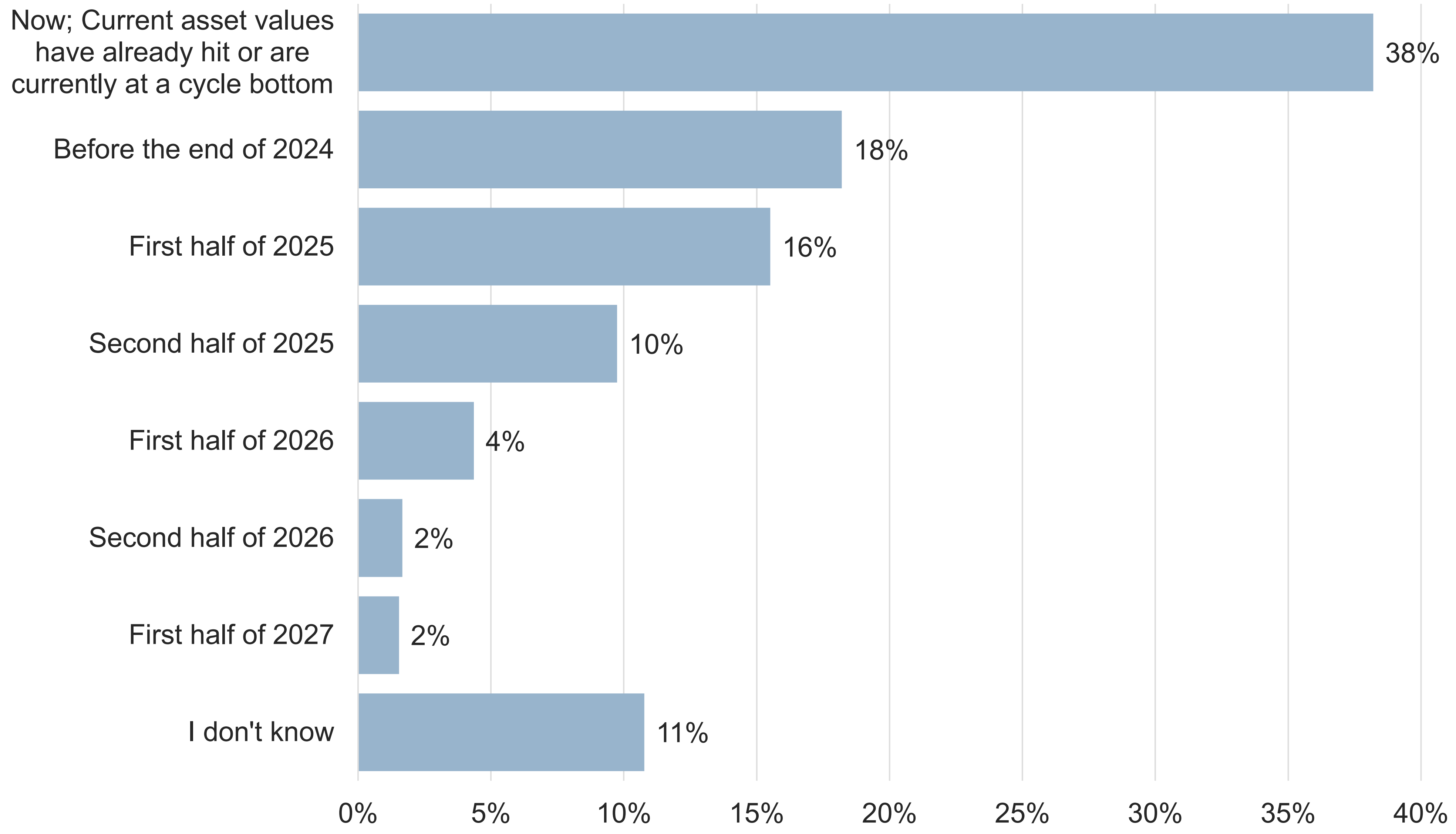



13% of CRE investors did not use outside capital in 2Q24, a slight decrease from 1Q24.

Sources: John Burns Research and Consulting, LLC; CRE Daily (Data: Aug-24, Pub: Sep-24)

# 38% of investors believe asset values have bottomed, indicating optimism moving forward.

## When will commercial real estate asset values will hit their lowest point this cycle?




More than half (56%) of investors believe asset values have bottomed or will bottom before the end of 2024.

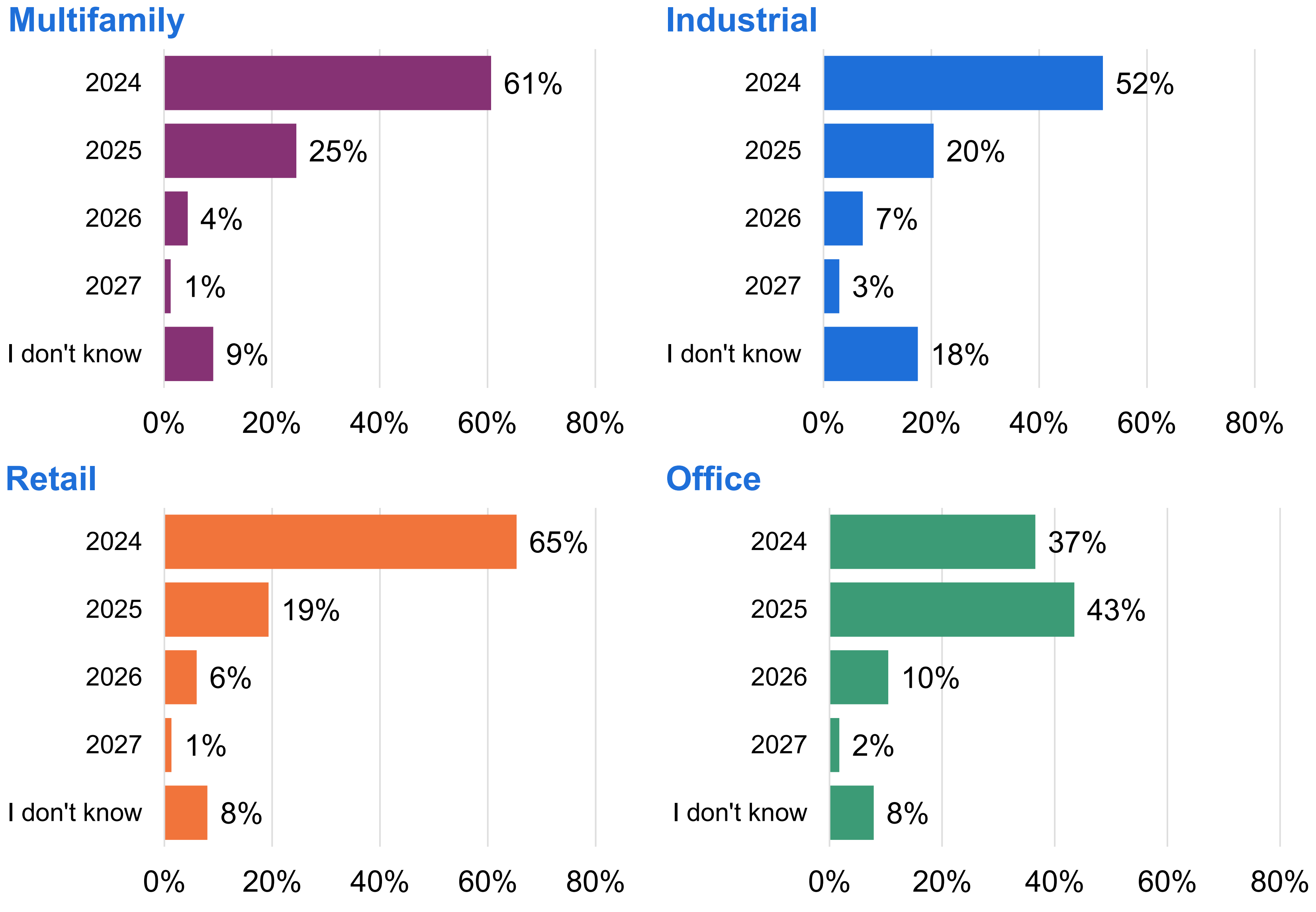
"Multifamily values have bottomed. Rates are declining, and the Fed is likely to cut on 9/17. The worst is behind us."

- Florida investor

Sources: John Burns Research and Consulting, LLC; CRE Daily (Data: Aug-24, Pub: Sep-24)

# The majority of investors across asset classes believe values will bottom in 2024, except for office.

## When do you think asset values will hit their lowest point this cycle?



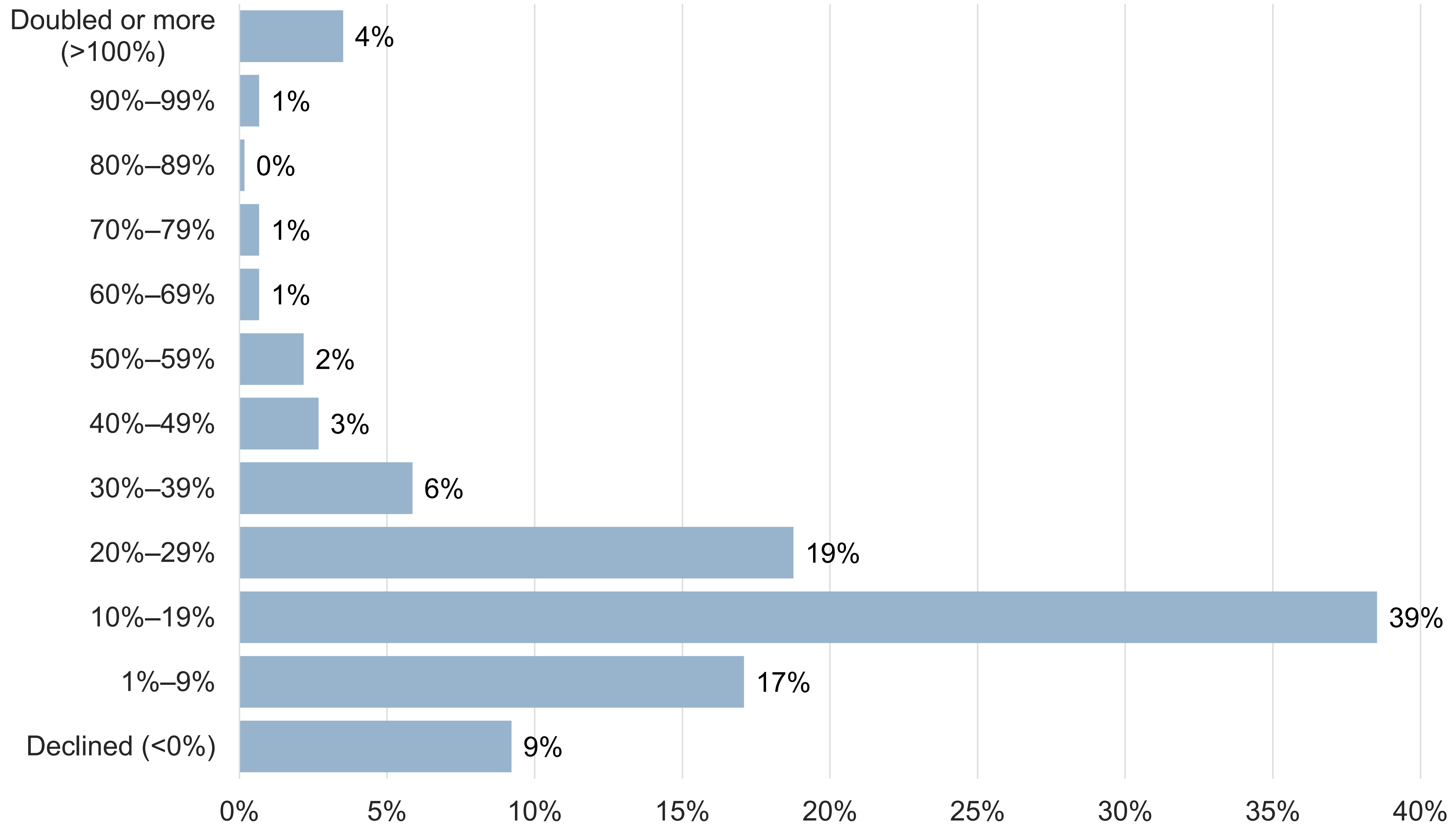

43% of office investors expect the market to bottom in 2025, a notable divergence from other sectors.

- Geography and asset class (A/B/C) likely plays a significant role.
- As one office investor notes: “Class A offices, especially those <5 years old, are incredibly strong as users continue their “flight to quality,” while Class B offices >15 years old have not found a bottom.”

Sources: John Burns Research and Consulting, LLC; CRE Daily (Data: Aug-24, Pub: Sep-24)

# 58% of investors noted a +10% YOY to +29% YOY increase in insurance costs, a far greater increase than in typical years.

## How have commercial real estate insurance costs changed since 1 year ago?




75% of investors report double-digit YOY percentage increases in insurance costs, with the largest share (39%) reporting a +10 to +19% YOY increase.

4% of investors indicate that insurance costs more than doubled YOY.

No significant differences in insurance cost increases were found between asset classes.

Sources: John Burns Research and Consulting, LLC; CRE Daily (Data: Aug-24, Pub: Sep-24)

# Selected commentary from CRE investors

## General market commentary

"This is the bottom on the buy side. Although real estate is a very local market, every deal is situational in each market. Broadly, this is the bottom on the pricing side, and we will see a massive uptick in sales pricing as interest rates go down. Valuations will not adjust much. The correction to sales price has already happened."

"Now is the time to buy if you can secure capital. Values will be on the rise as interest rates decline. Buy now and plan to refinance within 3 years."

"Commercial, except for office, has been quite resilient. I think we are near the bottom, and post-election with a few fed rate cuts will be a large tailwind for the industry."

## General market commentary: Insurance costs

"Taxes, insurance, and government regulation are driving us out of an industry."

"Hazard/casualty insurance for multifamily has become an outsized line item."

"Some insurances have literally gone up +1,000%. Have to shop hard to get anything close to 400%."

"Our insurance went up a lot last year. This year, they went down but are still above 2 years ago."

## Industrial

"Manufacturing and modernization of industrial facilities continues to drive demand."

"We are peaking in a cycle; however, based on what we think, the market will slightly decline in 2 years if interest rates continue to drop."

Sources: John Burns Research and Consulting, LLC; CRE Daily (Data: Aug-24, Pub: Sep-24)

# Selected commentary from CRE investors

## Multifamily

"Multifamily values have bottomed. Rates are declining, and the Fed is likely to cut on 9/17. The worst is behind us."

"I think we have bottomed out, and I am very opportunistic about 2025 and beyond."

"Investors will have to look past the negative headlines over the next 12–18 months: distressed asset sales, foreclosures, lawsuits, etc. The next 2 years will provide strongly convicted and well-capitalized investors with outstanding investment opportunities in multifamily."

## Retail

"'Everything is below replacement cost' is the common theme you hear. Bid-ask is still too far apart but has moved in the right direction."

"Retail shopping centers remain strong, and an easing of interest rates this fall should provide more favorable valuations. Namely, allowing the bid-ask gap to narrow, which should present more volume in sale transactions. We expect that by the second half of 2025, the market should be well on its way to pre-2023 volume."

## Office

"Until there is a recovery in transaction velocity, price discovery is going to remain choppy. The need to sell is still not a requirement or being forced by loan maturity. Office is still having its e-commerce moment like retail did in the Great Financial Crisis."

"We are at a crossroads where we are awaiting the heavy hammer to be exerted by lenders on non-performing loans and non-renewals on others. Office is being the hardest hit. Lowered rates will help, but only a worker return-to-office will help that sector."

"The market remains very bifurcated. Class A offices, especially for those <5 years old, are incredibly strong as users continue their 'flight to quality,' while Class B offices >15 years old have not found a bottom. Values in net leased sector for assets >$25mm in value may strengthen considerably given scarcity and the likely fall in treasury yields."

Sources: John Burns Research and Consulting, LLC; CRE Daily (Data: Aug-24, Pub: Sep-24)

# Burns + CRE Daily Fear and Greed Index

This report gauges the pulse of the commercial real estate industry in the United States. Conducted jointly by CRE Daily and **John Burns Research and Consulting**, the Fear and Greed report is based on a quarterly survey of commercial real estate investors primarily involved in multifamily, industrial, retail, and office sectors.

The Fear and Greed Index is a proprietary diffusion index that compares 3 key aspects of commercial investors' business:

1) **Current investment strategy** (currently increasing or decreasing CRE exposure)
2) **Expected investment strategy** (next 6 months)
3) **Access to capital** (easier or harder vs. prior quarter)

## Survey Responses

| Sector | Responses | % of Sample |
|---|---|---|
| Multifamily | 369 | 39% |
| Industrial | 171 | 18% |
| Retail | 183 | 19% |
| Office | 137 | 15% |
| Other | 79 | 8% |
| **Total:** | **939** | **100%** |

In survey work, a diffusion index highlights the main results on how a market, field, or industry is generally performing within a given time frame.

Our Fear and Greed diffusion index value (ranging from 0 to 100) demonstrates how far responses vary from the baseline (50). A value not far from the baseline indicates little change, whereas a value far from the baseline indicates great change. For example, a value less than 45 indicates a tendency toward contraction, and a value over 55 indicates a tendency toward expansion.

## Index Components

| Metric |
|---|
| Current CRE investment strategy |
| Expected CRE investment strategy (next 6 months) |
| Access to capital for CRE |

Note: investment strategy refers to increasing, decreasing, or holding investment exposure to each commercial real estate sector.

Sources: John Burns Research and Consulting, LLC; CRE Daily (Data: Aug-24, Pub: Sep-24)

# Sample details

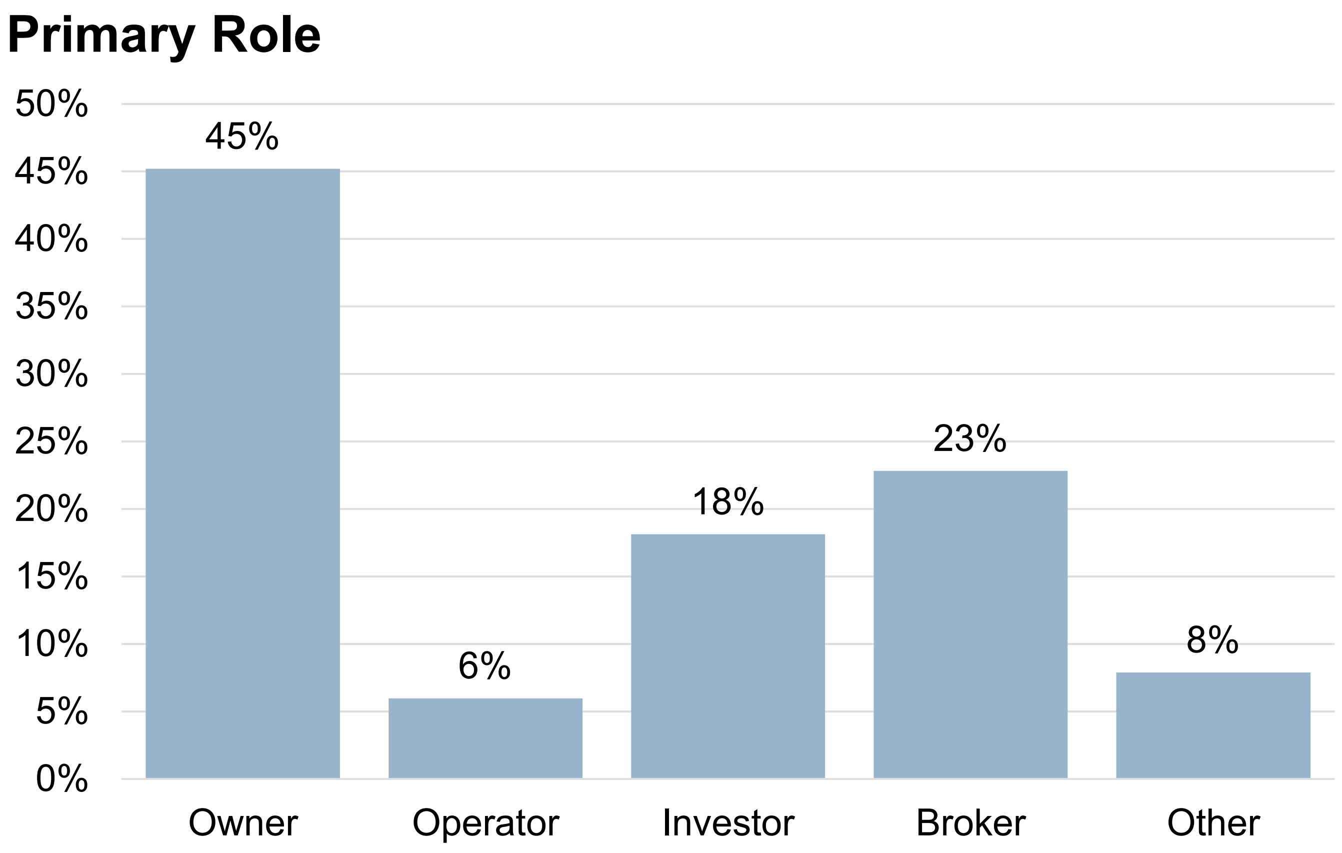
## Responses by segment:

| Multifamily | Industrial | Retail | Office | Other |
|---|---|---|---|---|
| **39%** | **18%** | **19%** | **15%** | **8%** |

## Responses by region:

*Note that participants could select more than one region in which they are active. Thus, the total will not add to 100%.*

- **California:** 22%
- **Florida:** 37%
- **Midwest:** 28%
- **Northeast:** 24%
- **Northwest:** 13%
- **Southeast:** 30%
- **Southwest:** 25%
- **Texas:** 34%




Sources: John Burns Research and Consulting, LLC; CRE Daily (Data: Aug-24, Pub: Sep-24)

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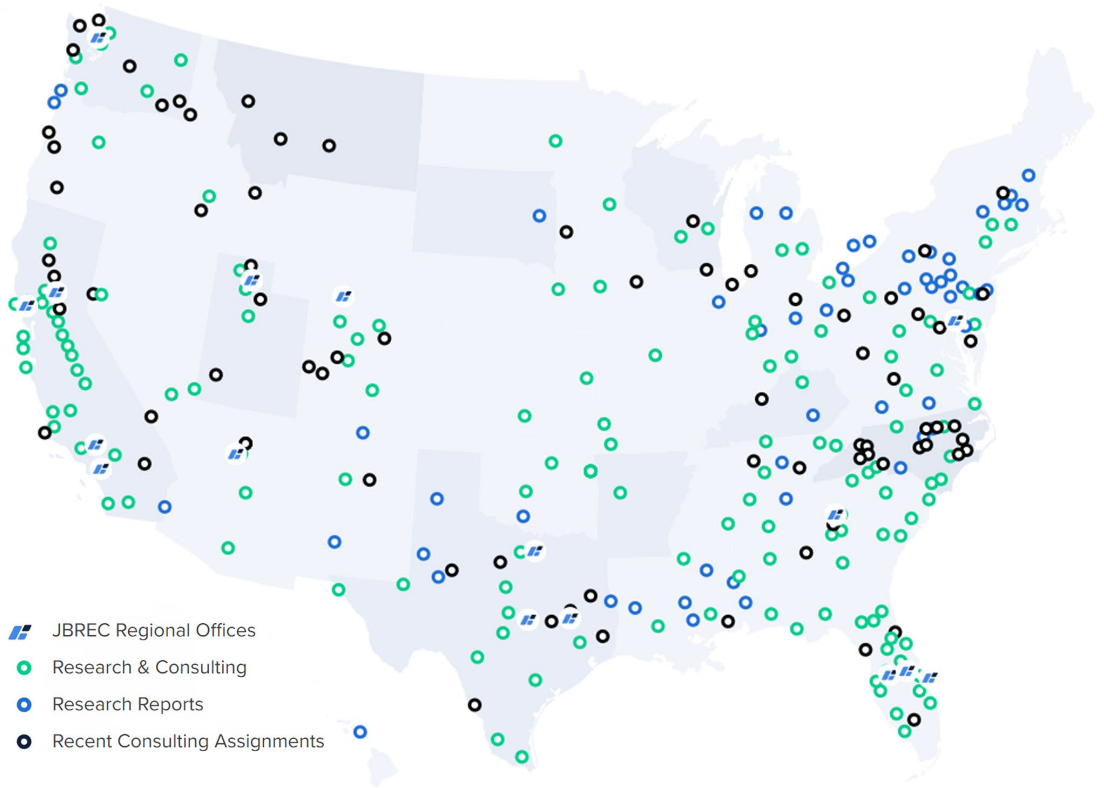
For more information, visit **jbrec.com**.

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## Limiting conditions



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