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From coronavirus to the Fed’s latest rate cut, comm’l. real estate investors must remain proactive - by Nicholas Racanelli

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The opening line from the Charles Dickens novel, A Tale of Two Cities, “It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness…” comes to mind in how we may look back and describe the current commercial real estate investment climate. There is a lot happening right now that is having an effect on commercial real estate investing and financing; both positive and negative. The coronavirus, and perhaps more specifically, the response to it, is definitely affecting real estate transactions and their schedules for closure.

The Federal Reserve recently implemented an “emergency rate cut” in reaction to the virus. It is creating opportunities for investors looking for new properties, and those looking to refinance loans to benefit from the lower rates. Staying abreast of these developments and overall market conditions, as well as being proactive in order to best leverage them is especially important now in the face of current uncertainties.

Latest Developments in Commercial Real Estate Investing

While not as vulnerable as equity investing is today, commercial real estate investing does involve travel to view a property. Given the current travel restrictions imposed to help contain the coronavirus’ spread, many investors will be unable to take those trips to inspect a possible investment property. This is especially true for investors coming from or traveling to regions with a high number of coronavirus cases. The uncertainty of what lies ahead is also making many investors step back and take a wait and see approach. No one is really expecting that this climate of caution will persist, but right now, it does seem to be taking hold at least in some areas. The Deloitte 2020 Commercial Real Estate Outlook, which surveyed 750 commercial real estate executives in ten countries, found that 15% are very optimistic about how the industry would perform this year, 61% are somewhat optimistic, 14% are neutral, and 10% are somewhat pessimistic.

Despite the coronavirus’ effect, low interest rates are a real draw for investors who are looking to capitalize on them. Many brokers already are reporting an uptick in loans. Property appraisers, real estate attorneys and lenders also are signaling increased activity. As for the commercial real estate executives surveyed by Deloitte, 73% expected to have an increase in transactions and 67% expected greater capital availability – all good news.

Regarding how commercial real estate is performing, the Deloitte report found that two-thirds of those surveyed who had largely office property portfolios were anticipating higher rental rates, while the remaining one-third expected a decline in their vacancy rates. Industrial properties too are seeing high demand especially for properties classified as class A big bulk warehouse facilities such as those sought by growing e-commerce businesses. Additionally, there is a correlating increasing demand for multifamily affordable workforce housing.

Prior to the coronavirus' taking hold, the National Retail Federation was forecasting retail sales to increase by 3.5% to 4.1% in 2020. They might not be as optimistic now as shopping malls in the United States are already seeing a significant decline in shoppers. Similarly, within the hospitality sector, hotels have also seen a drop in their guest numbers and there is concern that institutional investors will be pulling out of or reducing their portfolio holdings in this sector.

Responding to the Market

There are clearly opportunities to seize when interest rates drop; both in terms of new transaction financing and refinancing of existing loans. What is important is that investors do their homework in seeking out the best properties to invest in and the best financing options available to them.

Whether conventional mortgages, self-amortizing loans, bridge loans or construction loans, investors should be working with a reputable commercial real estate financing resource who can carefully vet all of the options, identify the best one, and then help negotiate the best terms. Banks, credit unions, government agencies like the Small Business Administration, insurance companies, etc. are looking to support commercial real estate property buyers and owners. There is an abundance of capital in the market despite the stock market's volatility and low interest rates are encouraging transactions. Still, banks have tightened their lending standards for commercial real estate and other lenders too are mindful of how different sectors (e.g., retail, hospitality) may be affected both by the equity markets' roller coaster ride, as well as the coronavirus.

That said, properties that have been well-maintained, offer in-demand features like smart building technologies and tenant amenities, will be viewed by lenders as sound investments and viable for their financing. With the guidance of an experienced commercial real estate finance professional, investors can be confident in their investment and related financing.

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