Surprise? Rates are up again! - by John Rynne

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At the beginning of the year, I forecasted the trend of the 10 year treasuries and cap rates will continue to slowly move downward throughout the first three quarters of 2024. As you know, 10 year treasuries are one of the primary baselines for mortgage rates. Mortgage rates have a large effect on overall capitalization rates. It was a surprise that inflation has recently reared its ugly head again. However, I did recognize that inflation correction was going to be stubborn because of the massive spending by the government. Recently, President Biden has proposed a federal budget of $7-$8 trillion. If passed, this will create more chaos in the inflationary trends. Since the end of the fourth quarter, the trend for 10 year treasuries on January 22nd was up by 23 basis points. On January 2nd, the 10 year treasury was at 3.95%; on March 28th 4.22%; on April 1st 4.33%; on April 15th 4.62% and on April 26th 4.67%. With continuing state and federal massive spending, it may be difficult to reign in inflation when there is massive money injected into the system by the government.

The office sector in the Rynne, Murphy & Associates, Inc.(RMA) survey located at www.rynnemurphy.com include small, class A, class A/R, class B and class C. This survey applies to Upstate New York and northwest and west central New England. The range of overall capitalization rates for small office for the first quarter range had an average rate of 8.75% which is 25 basis points more than the fourth quarter of 2023. The class A office first quarter cap rate was 7.75% which is 25 basis points more than the previous quarter. The class A/R office average cap rate was 8.50% which is also 25 basis points more than the previous quarter. The class B office average cap rates for the first quarter was 10.25% which was a 50 basis point increase from the fourth quarter. The class C office average cap rate was 12.5% which reflected a 75 basis point increase from the fourth quarter.

The retail sector of the RMA survey has three sections which include regional, community and neighborhood properties. The range of cap rates for regional retail properties for the first quarter average was 12.5%. This increased by 50 basis point since the last quarter. This is skewed higher because of the continued high risk of regional malls. The non-mall properties which are considered regional will have average cap rates nearer to the community retail properties. The first quarter community retail average cap rate was 9% which is 25 basis more than the last quarter. The neighborhood retail average cap rate for the first quarter was 8.75% which is also 25 basis points more than the fourth quarter.

The industrial sector of the RMA survey has four sections which include heavy, older, light industrial and R&D. The heavy industrial sector cap rate average was 12% for the first quarter which increased 50 basis point from the previous quarter. The older industrial segment average cap rate for the first quarter was 11.25% which is 50 basis points more than the fourth quarter. The light industrial average cap rate was 8.5% which had no change from the previous quarter. The R&D average cap rate for the first quarter was 8.5% which reflected no change from the third quarter.

The apartment section part of the RMA survey has five segments which include urban small multifamily, urban apartment project, suburban multifamily, suburban apartment project, and new apartment projects. The urban small multi average cap rate for the first quarter was 7.75% which is 25 basis points higher than the last quarter. The urban apartment project average cap rate was 8.25% which was 50 basis points more than the previous quarter. The suburban multifamily(10 units or less) average cap rate was 6.5% which had no change. The suburban apartment project had an average cap rate for the fourth quarter at 7% which is 25 basis points higher than the last quarter. New apartment project average cap rates for the first quarter were 6.25% which did not change from the fourth quarter.

In summary, the trend of the 10 year treasuries and cap rates will continue to trend slowly upward throughout the second quarter in 2024 and then stabilize.

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