# CRE Investment’s Falling Trajectory

A CBRE survey shows that 60% of investors say they will either sell less or not sell at all.

By Paul Bergeron | January 12, 2023

Investors cite rising interest rates, a potential recession, and limited credit availability as their greatest challenges this year, according to CBRE’s 2023 Investor Intentions Survey.

CBRE forecasts that the 2023 investment volume will decline by 15% from last year. As interest rates and economic conditions stabilize in the second half of 2023, it expects investment activity will increase.

CBRE’s 2023 U.S. Investor Intentions Survey finds that nearly 60% of the respondents expect to purchase less real estate in 2023, while only 15% expect to purchase more. Almost half of the respondents say they expect to decrease purchasing by more than 10%.

Investors are hesitant to sell assets as market pricing falls, according to the report. Sixty percent say they will either sell less or not sell at all, while only 27% expect to sell the same amount as last year.

An informal survey by GlobeSt.com finds most back up this view, albeit with some green shoots here and there.

**Fed’s Inflation Mandate Forcing Value Adjustments**

Will Nelson, director of Real estate lending, Columbia Pacific Advisors, tells GlobeSt.com that the Fed’s inflation mandate is forcing a value adjustment across public/private markets.

“CRE is and will undoubtedly be impacted. The low-rate environment in the 2010s fueled massive capitalization rate compression, and the mismatch with the current cost of capital is leading to massive bid/ask spreads for both equity and debt financing providers.

“There is and will be sustained demand for stretch financing, but as the real estate cycle resets, we will see a comprehensive movement back to traditional real estate investing attributes, ‘location, location, location,’ core markets, well-performing asset classes, and the definitive an experienced sponsorship pool that has navigated through cyclical troughs before.”

**New Acquisitions More Challenging to Complete**

Thomas Foley, co-founder and CEO of Archer.re, tells GlobeSt.com that based on conversations he’s had, and the activity shown by his clients, he sees similar sentiment around the decreasing willingness to sell into a depressed value environment and the willingness to buy with increased interest rates and uncertainty around recession impacts.

“Because new acquisitions, sales, and loans are dramatically more challenging to complete, CRE professionals are searching for ways to be more productive than ever when it comes to sourcing and underwriting opportunities that will actually transact,” according to Foley.

**We Remain Long-Term Bulls**

Eli Randel, Chief Operating Officer at CREXi, tells GlobeSt.com that the bid-ask gap has widened as increased costs of capital and a greater focus on risk premiums have impacted buyer valuations in real-time while sellers are typically slower to respond.

"Yet an abundance of capital, inflationary hedges in real estate investment, and the overall attractiveness of real estate as an investment vehicle versus alternative vehicles continue to drive investment activity and prop up values, albeit at a slower pace.

"2023 will trail recent annual averages in terms of transaction activity, but the supply of capital-seeking placement will keep transaction levels above the GFC when there was a liquidity crisis.

"We remain long-term CRE bulls and envision a near-term bifurcated environment where some properties challenged by societal trends and upcoming loan maturities present distress but good properties in good markets will continue to hold value, generate yields, create wealth, and transact."

**Ground Lease a Top Investment: Green Street**

Green Street reports that property prices declined 13% in 2022.

If the Fed continues to raise interest rates this year, property value declines could again be measured in the double-digits on a percentage basis, the firm said.

For this year, Green Street sees Ground Lease (8.4%) as the sector expected to bring the greatest returns, followed by Cold Storage (7.7%); Manufactured Home (7.7%); Gaming (7.6%) and Mall (7.4%).

**Capital More Thoughtful and Targeted**

Michael Lincoln, principal at C-PACE capital provider, GreenRock Capital, tells GlobeSt.com that it has been said a rising tide lifts all boats.

"We have certainly seen this the past few years from a capital markets perspective, during a period of abundant liquidity, benign inflation, and an accommodative monetary policy," Lincoln said.

"Now that the tide has gone out, capital will continue to flow into real assets, but will be more thoughtful and more targeted."

For example, the tide has receded on the office segment following post-COVID workplace uncertainties, but well-located class-A office assets chock-full of amenities at the high end of the market will continue to find both tenants and capital, he said.

"Similarly, geographic markets that are accommodative to business formation and demographic growth will continue to attract capital," Lincoln said. "Quite simply, the money will follow the people. That's good news for those regions that offer favorable sunny climates, both fiscally and meteorologically."

**Markets Will Play 'Catch-Up' in Second Half**

Andrey Abramov, director, senior analyst, Tauro Capital Advisors, tells GlobeSt.com that there will "absolutely" be a slowdown in activity for the first six months of 2023, "but as rates start to moderate, capital sources will need to place their allocations. We expect brisk activity in the second half of the year as markets play catch up."

**Buyer-Seller Disjunct Weighing on Activity**

Jonathan Woods, COO, Excelsa Properties, tells GlobeSt.com that disjunct between buyer and seller pricing expectations in a tighter lending and different rate environment will continue to weigh on investment activity.

“This may be more pronounced in multifamily, where market conditions are softening after an exceptionally strong period; the extent to which this may persist is driven by the depth of a potential US recession in 2023 and resulting in further job losses.

“The impact on other sectors such as industrial and logistics may be more muted with trends favoring e-commerce at the expense of retail appearing unabated.

“Overall, this environment may present opportunities for certain industry participants such as those with committed sources of equity, allowing them to gain market share from other groups such as syndicators, pension funds, and REITs that given capital market volatility appear currently less active.”

**Volume Won't Improve Until 2025**

John Drachman, co-founder, Waterford Property Company, tells GlobeSt.com that overall, he expects transaction volume to be in line with the second half of 2022, which was dramatically lower than the previous two years.

“Overall transaction volume will be down and will not improve until 2025; it will be a while before it hits the 2021 levels, too,” Drachman said.

“Industrial and multifamily assets transaction volume especially will be a fraction of what it was during the post-COVID-19 peak.

“However, I could see transaction volume on struggling retail or office assets improve as that distress has been building and more sellers will meet the market sooner.”

CBRE's report agrees, stating, “More investors are adopting opportunistic and distressed strategies to take advantage of market conditions. Most expect price discounts of up to 30% across sectors, with shopping malls and value-add office assets expected to offer the greatest.”

Anita Verma-Lallian, CEO & founder, Arizona Land Consulting, tells GlobeSt.com, “Investor activity will remain strong throughout the year if any distressed opportunities arise. If prices remain where they are, investor activity will decline.”

**Caution Expressed in Florida**

David Druey, Centennial Bank's Florida Regional President, tells GlobeSt.com that commercial real estate in Florida continues to flourish as the state's economy is attractive to national and international investors.

“We saw a healthy deal flow at the end of 2022 and going into 2023,” he said. “The wealth and opportunities in the pockets of Florida have created an immunity against much of the downturn's impact at this point. Thus, we are still actively lending while other banks are starting their ‘lending diets’ and pulling back on construction loans specifically as we head into the new year.

“It's fair to note that we will not be seeing the same levels of activities in 2023 as we have seen in the last couple of years, but we do not expect the economic downturn cycle in Florida to be as dramatic as in 2008. People are being cautious and waiting for the right moment to strike.”

**It's Worth Looking at Greenville**

Kevin Crook, director of acquisitions and dispositions, Investors Management Group, tells GlobeSt.com that even during the exuberant times of real estate market cycles, his firm always balances optimism with discipline.

“We anticipate less velocity in 2023,” Crook said. “But there will still be opportunistic buys, especially in less-discovered Sunbelt areas like Greenville, S.C., that have strong fundamentals and better pricing value.”

---