Commercial Real Estate Opportunities: Five Reasons You Should Invest with Confidence in Today's Uncertain Times

VIEWPOINT

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Nearly overnight, "uncertainty" has become today's buzzword. As the threat of COVID-19 becomes more widespread by the day, we're seeing the financial markets react and investors question their strategies. As with any significant event that impacts consumer and investor confidence, it's natural to see individuals and companies take cautious action or delay important decisions. Immediately, and in the coming months, investors may be tempted to adopt a "wait and see" attitude, but those who do risk missing out on opportunities. Below are five key reasons why real estate investing makes sense in today's market, coupled with expert advice to help you invest with confidence.

Commercial Real Estate is a Long-Game

In a market experiencing volatility, we expect to see more and more investors seeking a safe haven. It's unclear if recent stock market declines will be recouped quickly or over time, but for those seeking higher yields with lower risk, commercial real estate assets must be considered as investment options.

"Investors – particularly net lease investors – should focus on what the sector has historically been good for: long-term leases, stable tenants, and strong demographics," says **Asher Wenig, Senior Director & Partner.** "Whether you're focused on net lease or other CRE sectors, stick to good real estate fundamentals and play the long game."

Strong Economic Fundamentals

Market conditions are in our favor. Unemployment is low, and GDP was up 4.0 percent in 2019, continuing on its more than 10-year growth trend. Predictions currently suggest that near-term economic growth will slow temporarily which could indirectly impact real estate investment volume. At this point though, it's likely that confidence will return fast once the threat of COVID-19 is controlled, and the year could be back on track soon enough to see reasonably strong annual investment sales totals across the commercial real estate industry.

"Even if we witness a pause that causes activity levels to be lower than predicted, the market is well positioned to have a positive year overall, given the momentum that carried over from 2018 and 2019," suggests **Lanie Beck, Director of Corporate Research, Marketing & Communications.** "We have already seen a strong start to the year across the single-tenant net lease sector, compared to the last two years, with more than $13.0 billion in investment sales volume reported, and first quarter hasn't even ended yet."

Interest Rates are Incredibly Low

Recent cuts to interest rates will help support economic growth and activity, and "our view is that lender rates will remain at historic lows for the foreseeable future," says **Josh Campbell, Senior Vice President.** "However, for those buyers expecting further declines in interest rates, that's probably unlikely."

Therefore, there's no time like the present. "We are sensing, and encouraging, increased urgency on all deals in this environment, but this is particularly true of leveraged transactions," advises **Anne Perrault, Director.** "Time is of the essence more than ever, given the rapidly changing conditions. Buyers will want to secure loan commitments quickly and realize that lenders may work more slowly than usual in some cases."

"We are hearing from our mortgage contacts that life insurance loans will not chase the government rate cuts below the mid-to-low-3.0 percent range and will still require at least 35 percent real equity from their borrowers," says **Craig Tomlinson, Senior Director & Partner.** "CMBS lenders are slightly more expensive at 3.5 to 3.7 percent for 70 percent loans, while banks have the highest rates in the high 3.0 percent range."

Quality Real Estate Is in High Demand

If you're a seller in today's market, your asset could be in high demand. Recently, there has been an imbalance of supply and demand, as the highest quality properties trade fast. According to **Associate Director Katie Elliott,** "many of the larger REITs have commented that they still have capital to deploy," suggesting they intend to remain active in the market.

Another group still hungry for quality investments are 1031 exchangers. A quick shift in market conditions does not erase the desire for tax savings, nor will it stop exchange transactions from occurring in the short-term. As investors look to trade out of one asset and into another, savvy buyers will continue to benefit from newly listed, high-quality real estate assets and should be encouraged to pursue those deals with earnest.

Opportunities to Diversify

Investment advisors have always recommended diversification as a way to minimize risk, and that advice holds true for commercial real estate investors. If your portfolio is heavily weighted towards a single, specific asset type, now would be a great time to diversify. "Consider purchasing an anchored retail center with a grocery component or other 'necessity' retail service tenants," says **Margaret Caldwell, Managing Director & Partner.** "These centers are still trading at historically low cap rates which are expected to remain low regardless of COVID-19's impact. Investors chasing yield will be able to take advantage of low interest rates and receive highly levered returns by investing in power centers and other multi-tenant retail."

Pat Weibel, Director, echoes these thoughts. "Freestanding grocery and grocery anchored centers will be very popular in the short-term, as will last-mile logistics facilities. The focus these last few weeks have been on 'flight to quality,' but that's good advice to follow when considering your long-term investment strategy too." Regardless of the current mix within your real estate portfolio, today's environment should prompt all investors to evaluate their level of diversification and seek to purchase assets that will help them minimize risk in the long-term.

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