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Capital Availability Drives Office Investment Activity

Office investment has picked up this year thanks in large part to the $200 billion in capital allocated for commercial real estate investment in 2019 alone.

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Tina Lichens. Photo courtesy of GlobeSt.com

The abundance of capital in the market is driving strong office investment activity this year. According to a recent office investor sentiment survey from Real Capital Markets, investors are cautiously optimistic about the office market, thanks to steady economic growth and low unemployment rate; however, the length of the cycle is also encouraging a high level of caution. Overall, investors that participated in the survey reported a high level of confidence for office investment.

"Office investment is largely driven by the availability of capital," Tina Lichens, COO of Real Capital Markets, tells GlobeSt.com. "There are estimates that there is approximately $200 billion available for investing in commercial real estate in 2019 alone. While not all of that is allocated toward office property acquisitions, it is an incredible amount of capital to be placed."

This capital is flooding to growth markets across the US. Cities like Phoenix and Nashville have seen a late-cycle surge of population and employment growth. "Another factor that is enhancing the appetite for office investments is the stable growth of markets like Nashville, Austin, Minneapolis, Charlotte, Phoenix, Raleigh-Durham, and St. Louis, among others," Lichens. "As these markets experience sustained growth, the dynamics are changing: vacancy rates are lower, rents are moving higher and values are moving upward. Combined, these factors make these markets even more attractive for investing."

While investment activity is still strong, investors are paying close attention to some factors that could derail office growth, particularly tariffs and trade wars. For now, economic and job growth is offsetting these potential concerns. "We hear lots of discussion about where we are in the cycle and some of the factors, like tariffs and trade wars, are being watched closely by investors," says Lichens. "But at the end of the day, because of generally positive trends in job creation, unemployment rates, corporate growth and interest rate environment, investors are cautiously optimistic."

For that reason, office investment momentum should hold strong through early 2020, and nearly half of investors believe that activity levels will remain stable. "The outlook for the balance of 2019, and through the early stages of 2020, is consistency—in terms of expectations for both activity levels and pricing," says Lichens. "Our Office Investor Sentiment Report found that approximately 40% believe activity levels will remain consistent."

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