# Five CRE Investment Themes for Turbulent Times

**There will be a big boom in CRE investment in 2024 and beyond.**

By Joseph J. Ori

The CRE industry is facing some tumultuous times with higher interest rates, less debt and equity capital available, a multitude of loan defaults and foreclosures and a slowing economy. However, there are some “green shoots” that are worth following.

**1. Extend to the End**
During the Great Recession from 2007 to 2012, many CRE lenders were in financial turmoil and to minimize additional loan defaults began a program of “extend and pretend.” Today, it is “extend to the end” and the end refers to when the Federal Reserve will end its interest rate raising program. I believe the Fed will make one more .25% raise in the federal funds rate this year to 5.50% and then it will stand firm for the next few months and begin reducing rates in the first half of 2024. This will create a big boom in CRE investment in 2024 and beyond.

**2. Adore CRE in 2024**
When the Fed begins lowering interest rates in 2024, the CRE industry will boom, and this will be an excellent opportunity to acquire CRE assets including those that have been in distress including office buildings, retail centers and senior housing assets. There will also be an opportunity to acquire defaulted notes on CRE properties. Also, the job market will still remain robust, which will support a growing CRE market.

**3. Put on Your Distressed Investing Hat**
CRE investment firms need to begin raising capital for distressed funds to take advantage of defaulted loans, distressed property, and deeply discounted property in the next two years. Since the beginning of this year, there has been about $50 billion in capital raised for distressed investment along with about $100 billion in existing CRE funds or a total of $150 billion for distressed assets. Office assets in the high-crime Gateway cities will be available for 40% to 50% discounts from pe-Covid values and although these areas may need another year or two to turnaround, these will turn out to be great bargains.

**4. Buy Midwest Suburban Apartments**
The national apartment market continues to do well, but apartments in the suburban Midwest should do exceptionally well and are available at attractive cap rates of 6.0% to 8.0%+ as compared to 4.0%-6.0% for apartments on the Coasts and in the high-growth Sunbelt markets. Midwest apartments only saw average rents rise about 3.0% during the last five years as compared to coastal and Sunbelt markets, where rents were up 50% to 100%+ during the same period. Many markets in Florida saw rents double during this period. Midwest apartments will be available at enticing risk adjusted cap rates.

**5. Buy Suburban Office in Gateway Markets**

The office markets in many of the Gateway cities with high crime and out migration have been in severe distress the last few years, however, the suburban markets that ring these cities have seen a huge in migration boom and demand for office space will be strong. Investors should seek to acquire suburban office buildings that are available at cap rates of 7.0%-9.0%+ in these markets and many of these buildings will see high 90%+ occupancies.