Despite Transition In The Market, This CEO Says CRE Opportunities Abound

By Elizabeth Reyn

Multiple global uncertainties, from inflation hiking up the prices of goods to rising interest rates, are creating a transitional real estate market in the U.S. that has caused a gray area between a buyer's and a seller's market.

Rather than playing a waiting game to see how the market turns out, investors, developers and owners could use this time as an opportunity to re-evaluate their portfolios and explore new asset classes, said Jeff Rinkov, CEO of commercial real estate brokerage Lee & Associates.

Rinkov said REITs and institutional investors appear to have largely taken some time off during the summer months to evaluate the impact of inflation, recession, continued supply chain complications and higher interest rates.

"Active investors are taking advantage of the changes in the market and keeping an eye on trends to maximize their portfolios," Rinkov said.

Rinkov said that these trends differ with each asset class and depend on the particular demands within the sector during the transitional period. Multifamily and retail assets such as well-located malls and quick-service restaurants are doing well, he noted, while the office sector could be more affected by the transitional market. Industrial tenant demand, positive net absorption, rental rate growth and investor demand seem to be very consistent themes.

"Based on demand, the industrial sector continues to be very strong, but that asset class has traded at historically low cap rates, and interest rates should have an effect, as we have already seen more impact of land pricing," Rinkov said. "The big question right now is the office sector because while we are seeing more tenant demand, we're also seeing smaller footprints for tenant demand upon new acquisition of space as well as renewal of space."

He added that while the future of the office sector is uncertain, there have been some positive developments: Newly constructed Class-A office buildings in prime locations have been experiencing extraordinary demand, as companies begin to execute their plans to return to in-person work.

"Within the office sector, I think there is a general theme of people wanting to return to the office and enjoy the culture and collaboration," Rinkov said.

He said that there continues to be a flight to quality among investors and tenants looking for prime assets in desirable markets, such as New York City, Toronto and Vancouver.

“It has really been about ‘where can I find a quality asset at a premium price that likely has the opportunity for appreciation?’” Rinkov said. “As some investors shied away from recent acquisitions because of so much competition and inflated pricing, we are seeing some opportunity capital enter markets. More opportunistic capital has not been widely present in the market and those investors really need to try and buy at or below the replacement cost.”

Rinkov said that while Lee & Associates has been communicating with clients to help them navigate this often confusing time, the company’s attitude about the CRE market is “very optimistic.”

“I think asset classes like industrial, retail and multifamily have some runway, and demand has been outpacing delivery for some of these product types,” Rinkov said. “Certain asset classes and markets have presented more challenging conversations with clients. We’re able to manage through them and still keep our transaction volume and velocity at a really strong point.”

In spite of the instability, he said, there are still opportunities for investors to enter particular markets and asset classes.

“The economy is going to continue to create opportunity, and I think having a reasonable amount of uncertainty in the market will continue to fuel that opportunity,” Rinkov said.