Interest Rates and Value

How do higher interest rates impact value? There are at least three reasons for downward pricing pressure.

Simple affordability: higher rates increase the cost of ownership. The leveraged owner can no longer afford the same property they could afford six months ago.

Available lending for any specific property is reduced as the Debt Coverage Ratio (DCR) requirements call for a higher down payment to support the loan. Investors need to come up with more money down.

Reduced free cash flow – eventually results in higher return requirements, which equals higher cap rate resulting in a lower valuation.

Quick almost end of quarter Market Update:
So far this quarter, transaction volume and pricing are on par with last quarter, although leasing activity is off 6.8%.

The good news is that we are not in a recession and business and employment is strong. A soft landing – inflation taming without recession is still possible. In our last recession, ending in April 2020 leasing activity dropped but pricing and velocity held.

Is this a terrible time to sell? – and a great time to buy? It all depends on your situation, your long-term plan, and your properties' characteristics.

Testimonial
"Ces Cecchin helped our ownership group understand the current market, values and types of buyers we could expect to offer to purchase our building. Ces's great marketing effort drummed up multiple offers quickly. He then guided us through the process to choose the strongest offer, the one that would close on time and with less drama. I would recommend Ces to anyone looking to sell their investment building." - Steven F., Partner Owner

What do I do?
My primary focus is real estate investment sales and leasing. I have extensive experience brokering property sales and leases in the San Francisco bay area. I am inquisitive, analytical and strategic, I enjoy learning about your CRE goals, and helping you develop and implement your strategic plan.

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