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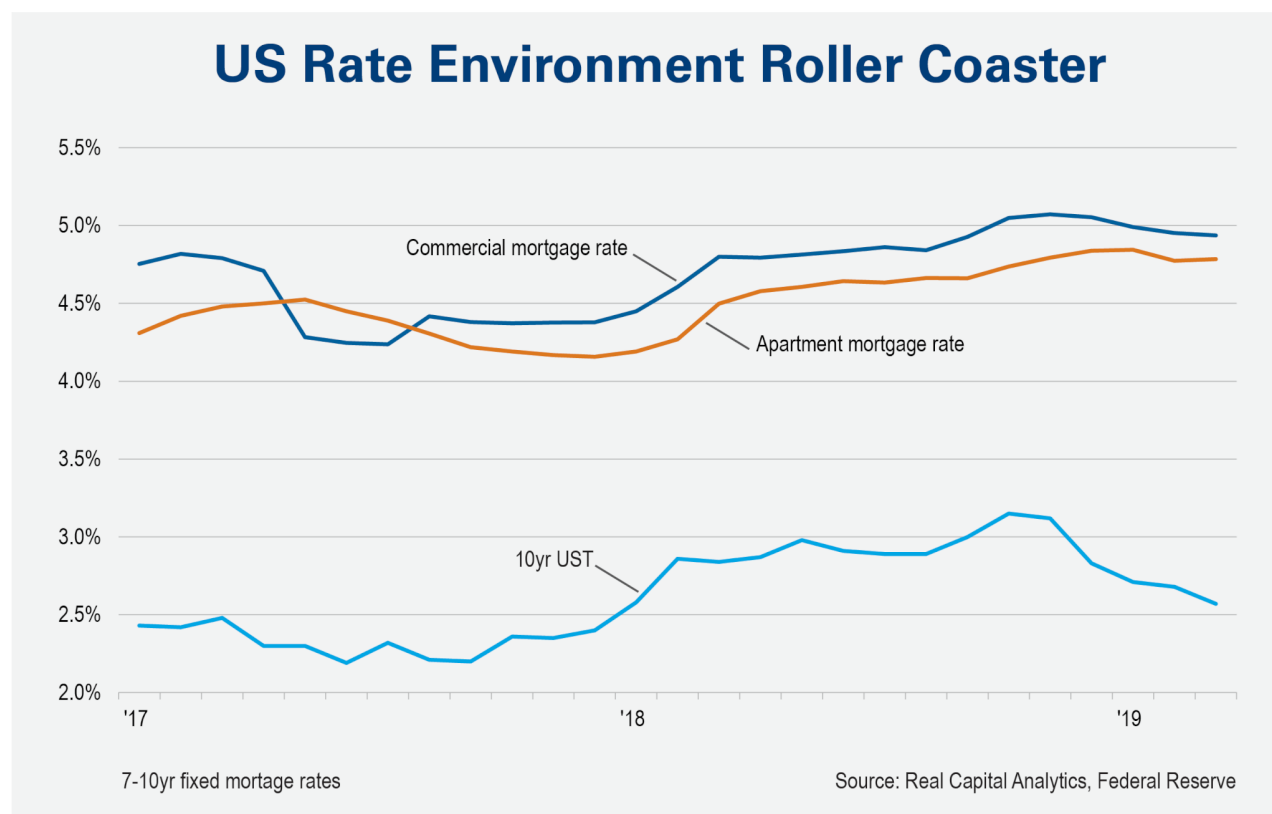
US Commercial Real Estate Endures Bumpy Ride in Q1

By Jim Costello on Wednesday, April 17th 2019

U.S. commercial property deal volume fell at double-digit annual rates in the first quarter of 2019, preliminary data shows, as a bumpy interest rate environment led to a growing sense of investor caution. The size of deals in the pipeline suggest an improvement later this year, however.

The rate environment has been on a roller coaster since late 2018 with the 10yr US Treasury spiking in October on fears over Federal Reserve rate hikes. Mortgage rates for commercial properties rose alongside and the average rate for 7/10yr fixed commercial mortgages climbed to 5.1% in December from 4.8% in August. The speed of that increase led to lower-than-expected deal activity in the fourth quarter of 2018 and is one of the culprits behind the decline in deal volume early in 2019.

The rate picture for apartment assets did become more challenging as well, but, in line with the past, it was not as extreme as that for commercial properties. The rate for 7/10yr fixed mortgages for apartments went to 4.8% by year-end.



Greater stability in the financing markets for apartments seems to have put a floor under the deal activity for this sector. Preliminary data for the first quarter suggests only a single-digit year-over-year pace of decline for the apartment sector versus a significant double-digit decline for commercial property sales in general.

Into the first quarter of this year, commercial mortgage rates moderated and by March these rates were back to the levels seen in September. While rates are lower though, deal activity cannot immediately go back to the same pace of growth seen in previous months.

One characteristic of the deal activity in the first quarter is the negligible M&A-type volume; this dearth of activity is unlikely to change before final figures are released in *US Capital Trends* next week. Such entity-level transactions accounted for less than 1% of all deal activity in the first three months of 2019, preliminary data shows, compared with 13% of all deal activity in 2018. Several announcements have been made and there are rumors circulating that more such deals will be forthcoming in the months ahead.

Taking a look at the deals under contract, it is clear that there are a number of large deals ready to move out to the market. The average size of under-contract deals came in at \$49 million in the first quarter versus an average of \$38 million a year ago. Expectations that the Fed is done for now with their tightening cycle may dispel some of the investor caution seen earlier and move some of these larger deals through the pipeline later this year.

The new edition of US Capital Trends will be released April 24. We detail deal activity and pricing across the property types, including a first look at the RCA CPPI results. On April 25, the RCA CPPI results will be publicly available.