

Confidence in Commercial Market Continues; Realtors® See Challenges in Financing

June 2017

Realtors® specializing in commercial real estate should have confidence that growth in the market will continue, although one hurdle that continues to affect the market is the lack of available financing to small commercial real estate investors, due in large part to regulatory uncertainty.

Unemployment has declined to 4.4 percent and consumer confidence is at its highest point in 15 years. “A rising interest rate environment is likely to halt commercial price growth or even cause a minor decline, an outlook supported by the growing economy and the over 2 million jobs gained in the past year,” said Michael Ross.

Global commercial investments have also slowed, which in the first quarter of 2017 decreased nearly 20 percent year-over-year; however, certain U.S. markets are seeing good global cash flow with \$76 billion flowing to the U.S. “International buyers are likely to play a greater role in the U.S. market this year. During the past five years, a near majority of Realtors® experienced an increase in the number of international clients; we expect international buying activity to grow in 2017, which will have an overall positive impact on the commercial market’s ongoing recovery,” said Ross.

One major obstacle that continues to affect the market is the lack of available financing to small commercial real estate investors. “Realtors® are seeing evidence of markets being impacted by regulators’ increased scrutiny of banks’ balance sheet allocations to commercial real estate loans,” said Ross. “Considering that 64 percent of Realtor® clients get their financing from banks, this is likely to impact transaction flow as lending conditions tightened in 37 percent of Realtors® markets, a four percent increase from last year.”

According to the National Association of Realtors®'s *Commercial Real Estate 2016 Lending Survey*, Realtors® reported a significant drawback when it came to financing for buyers of properties under \$2 million, which makes up 83 percent of Realtors® clients in the commercial sector. These small businesses are typically financed by private investors or local and regional banks. Thirty-five percent of commercial members reported they had commercial transactions fail in the past year due to a lack of financing.

Lake and Geauga Area Association of REALTORS® said regulatory uncertainty of financial institutions are accounting for the lack of capital in commercial lending for smaller properties. LGAAR along with NAR believe in protecting and enhancing the flow of capital to commercial real estate.

“Realtors® build communities, and those who own or invest in commercial real estate spaces help strengthen those communities and support millions of jobs nationwide. It’s imperative that we continue to advocate for enhancing the flow of capital to commercial real estate,” said Ross.