CADWALADER

A Transitional Period

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Volatility, prudence, cautious optimism, outright fear, stagnation, doldrums. These and many other terms are being bandied about concerning the current state of the real estate markets.

Needless to say, we are in a “transitional” period where prognostications abound. Will the fed continue to increase rates and will there be a flattening, slowdown or reversal of course? Will another shoe drop in the banking sector? Every day brings another pundit or economic commentator’s views.

There are deals getting done. We know this, but when and how we get back to what we knew as normal or what a new normal will look like is anyone’s guess. The general consensus, however, seems to be that the current cycle is not nearly as consequential as the cycle we experienced in 2008 during the “Great Recession.” Economic growth continues. Liquidity has not dried up to anywhere near what we experienced then, and credit fundamentals remain strong. Inflation continues to be top of mind and a driving force.

What we are beginning to see and I hazard to guess we will continue to experience are stress and workouts in various sectors and markets. Certain aspects of the real estate market have experienced an exacerbation of transition which was thrust upon them by a combination of the COVID shutdown and a rising interest rate environment. Certain properties and certain markets, particularly in the office sector, will struggle to find tenants whose needs have shrunk due to “work from home” policies. Certain properties will struggle due to the continued amelioration of certain retail trends and tendencies. Many will take a wait-and-see attitude.

What we do know for sure is that the real estate markets are resilient. As the old adage goes: they aren’t making any more of it. I for one have always been a glass half-full proponent. There will be transitions and repurposing. There will be workouts and, unfortunately, foreclosures. But the real estate market will remain and as always come out of the cycle stronger and smarter.