Declining Demand: the First Effects of Rising Rates

Are these the first effects of the rising interest rates environment? The Wall Street Journal (WSJ) – citing data from MSCI Real Assets – is reporting a decline in property sales in April 2022, citing an ease in demand due to the interest rate rises.

Property sales totaled $39.4 billion in April 2022, which represents a drop of 16% compared to April 2021.

First Decline in Over a Year

It was the first decline recorded in property sales after 13 months of consecutive increases – showing just how resilient the property market was during the height of the Covid-19 pandemic, and also that the rates rising have introduced new pressures, perhaps more directly than those evidenced during the pandemic.

“After an early-pandemic scare in which sales of most types of commercial real estate declined, commercial property sales began rebounding in late 2020. Low interest rates and strong demand, especially from multifamily and industrial tenants, fueled property sales throughout 2021 and into this year,” reads the WSJ article.

Global Trend

Rising interest rates in response to an inflationary environment are not isolated to US markets. Rather, people and countries around the world are grappling with these economic factors. Among others, Australia, the United Kingdom (UK), South African, India, and Brazil’s central banks have all recently raised rates, while the European Central bank has said the end to negative rates is forthcoming.

CRE Challenges Ahead

In the Seeking Alpha coverage of the WSJ news, they write: “As rates continue to rise it adds pressure to the sellers’ market as the pool of buyers shrinks in size in a simultaneous fashion. Enough of a landscape shift can swing the pendulum to a favorable market to be a buyer compared to a seller”.

Additionally, Seeking Alpha cautions that this in conjunction with the ongoing remote work trend amount to “clear cut challenges ahead”.

Finally, WSJ notes, the higher interest rates are particularly harsh on those “property investors that rely on large amounts of debt”, making them “some of the first ones to fall out of the market”.