



What to Expect in the Fourth Quarter of 2022?

Let's begin by setting market context – investment activity was steady in the first 6 months of the year. Acquisition volume rose 10% year-over-year in the second quarter equaling \$167 billion (source; Real Capital Analytics). Monetary policies have largely begun to influence the finance and investment sectors and shall continue to do so as we move through 2022. Additional practical factors affecting market fundamentals are the impacts of industry volatility relative to the capital markets and shifts in [lender] debt execution towards the idea of financeable vs unfinanceable assets.

Interest rate hikes will have major consequences on capital markets and investor sentiment. Most will watch the rising cost of capital eat away at yields and the corollary effects on fundamentals staring down the final quarter of the year. Incremental interest rate hikes meant to blunt the cost of capital will ricochet through the economy and show up across the full spectrum of commercial real estate fundamentals (arguably already here). As the view gets clearer, expect to see softening demand for many asset classes and some changes in broader market fundamentals causing increased insecurity. The effects of the incremental interest rate hikes through this year will be felt and will advance slowly into 2023. Fed policies could also have a lagging impact of 6 – 9 months, respectively, thus making it a bit more difficult for many to anticipate market conditions that lead to decision making.

However, with all that being said, the commercial real estate sector doesn't stop because of shifting market dynamics. Experienced commercial real estate professionals adapt, adjust, and find opportunities on the upswing and down. Careful to succumb to the acquiescence bias undercutting one's ability to clearly see the board and move chips confidently—if you know what you are doing—the game doesn't stop when it rains. Change the approach.

If you are reading this, odds are you know what you are doing so continue to track key market impacts (I.E. cost of capital impacts on fundamentals), then immerse yourself in the opportunity profile this market presents. Authorities in the commercial real estate space appropriately factor in effects of market psychology and move chips; accordingly, the rest pull their chips off the table.

Stay disciplined, stay focused and create value. Production does not take vacations!

A handwritten signature in black ink, appearing to read 'Marc A. Bonilla'.

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