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For Now, Don’t Worry About Rising Interest Rates

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The market is so hot in Orange County, interest rates won’t rise enough to have an impact, at least in the short term.

Barry Saywitz

Interest rates are set to rise. Likely, they will increase nominally a few more times year, and could potential increase next year as well. In commercial real estate, the expectation that interest rates would rise and how the increase would impact the market has become a years-long discussion. Now that it is happening, **Barry Saywitz** of **the Saywitz Co.** is saying that the market is so heated, rising interest rates won’t have an impact in Southern California—at least in the short-term. Throughout Southern California, all-cash deals have become common as limited opportunities have driven prices up. Saywitz says that the supply demand imbalance and liquidity in the market will keep prices moving up.

“I believe that the Fed is going to increase interest rates a couple more times here. If interest rates go from 4.5% to 5%, clearly, it is going to cost more. The question is: Is that going to stop the increase of the price of the property,” Saywitz, president of the Saywitz Co., tells

GlobeSt.com. “The answer is no, not if rents keep going up and not if you still have a supply and demand issue. I expect that it will have some impact, but not ultimate impact. On the one hand, interest rates have to have some impact on the slowing down the growth of prices. On the other hand, while there are still all-cash buyers and while there are still people looking for fewer and fewer opportunities, there will still be a run-up in pricing. It might be a slower run-up, but you will still have a run-up.”

While there is no short-term concern about pricing across product types, Saywitz admits that if interest rates rise, at some point they will impact prices. “Fundamentally, there is a problem. You can’t have a cap rate that is lower than your interest rate because you have negative inverse proportion,” he explains. “The cap rate eventually has to come up so that it is at or above whatever interest rates are. If interest rates are at 5%, a normalized cap rate would be at 5.5% or 6%. But, it is not, and it is not going to be in the short-term because there is too much money chasing too few deals.”

As a result, he is telling his clients to buy today or pay more tomorrow. “If interest rates go up today, it isn’t going to hurt anyone. If they go up again next year and the following year, you are going to start to see pressure,” explains Saywitz. “If you have to make a deal, for whatever reason, you should do it now. If you can’t find the perfect option, then try to figure out the best option. If you wait and sit on your hands, you are eventually going to pay more.”

While he believes that prices are going to continue to inch up in the near-term—which means we have yet to hit the top of the cycle—he says we are close to the end. “Real estate is a bell curve,” says Saywitz. “We not be on the absolute tip of the bell curve, but you are definitely on the curve. It isn’t going to go up forever. I think in the short-run, we will continue to see prices tick up some more. If interest rates continue to go up, it ultimately has to have an impact on pricing.”