CIBA Real Estate

Commercial Newsletter

Monthly Newsletter for Owners and Tenants

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The Relationship Between Cap Rates and Property Appreciation

The cap rate is one of the most basic calculations that investors often utilize when assessing both a property's value, and its current rate of return on investment. This figure represents a property's net annual income divided by the purchase price, and for many investors it represents the starting point in determining whether or not a particular property should even be considered for purchase.

In hot real estate markets, cap rates tend to be driven down, as investment money is easier to come by, lenders are making more favorable financing terms available to buyers, and the buyers themselves tend to be doing better economically, being flush with more cash and wanting to invest it in more property. So all of these factors combined create an overall greater demand for property, causing sellers to command higher prices, thereby driving down the overall cap rates.

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Is Now the Time to Sell Your Commercial Property?

Ideally, when you sell your commercial property, you want to do so at the peak of the market, when property values are at their highest levels. The problem with this is that so many people mis-time the market, not observing it objectively, and then years down the road when looking into the rearview mirror, the timing in retrospect then seems more obvious to them.

So in keeping this in mind, let's take a look at how our real estate markets have performed nationally over the past 40-50 years or so. What we've generally observed is a runup of solid activity and property appreciation for specific periods of time, followed by a transitional cooling off period, then followed by an economic downturn. Then during the economic downturns, vacancy rates on commercial properties have risen, and property values have gone down.

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Business Seminars

Monrovia Business Seminar
TBD

MADIA TECH LAUNCH
Sept. 11, 2019, 6:30-8:30 PM
Tanner Research
Pathways to Stem Cell Science's
Dr. Victoria Fox

Monrovia Kiwanis
Meets at the Monrovian Restaurant
Every Thursday 12-1:30 PM

Duarte Kiwanis
Meets at the Duarte Teens Center
Every 3rd Tuesday 12-1:30 PM

Quotes for the Month

"Be yourself; everyone else is already taken."
— **Oscar Wilde**

"I am enough of an artist to draw freely upon my imagination. Imagination is more important than knowledge. Knowledge is limited. Imagination encircles the world."
— **Albert Einstein**

"It is never too late to be what you might have been."
— **George Eliot**

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But in hot commercial real estate markets, particularly in those markets that experience substantial appreciation in property values, the cap rates can get driven down even further. In specific areas within states like California, New York, and Florida, for example, the appreciation rate can be 20-30% per year on property, and this can then create a frenetic demand for buyers to own more property. The idea here is that with the huge amount of annual appreciation that's been going on, the cap rate is now less significant, and the big money to be made is now in the annual appreciation. So in markets like these, the cap rates can get driven down to maybe 3-4%, then when you add this to the 20-30% annual appreciation rate that's been going on, the overall annual returns can become quite substantial.

Now contrast this instead with a market where even in a good economy, it's been experiencing just a 3-5% annual appreciation rate on property values, and when doing so we begin to understand just how much higher the cap rates now need to be in these areas in order to attract buyers. So in this situation, a buyer may demand an 8-10% cap rate, because they'll be experiencing so much less in annual appreciation.

But in the hot markets, once the great annual appreciation rate finally subsides, and buyers are looking at just a 3-4% cap rate on a property with no annual appreciation, their interest in buying the property can then wane very quickly. However, the sellers can oftentimes then believe that their property should still sell at the 3-4% cap rate, and they just don't understand how the market dynamics have now completely changed on them.

So, in putting this together, whether you are a buyer or a seller, timing is critical, and you need to understand when to get in at the right time, and when to sell at the right time, too.

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In addition, as the lenders have become more concerned during these transitions, they then tend to tighten their lending criteria, requiring larger down payments, and raising their interest rates, too. This in itself then tends to exacerbate the situation, causing buyers to now demand lower prices, in order to compensate for these changes that have now taken place.

So in putting this together, we haven't seen within the past 40-50 years or so a time when we've first had a solid real estate market, followed by a transitional cooling off period, where the market hasn't then experienced an economic downturn first before emerging once again into a solid, robust commercial real estate market.

With this in mind, with what we're now experiencing with the less frenetic pace of activity in most commercial real estate markets nationally, what do you believe we're now more likely to experience next based upon our history? Will we be more likely to experience a resurgence and a heightened, increased level of activity within the real estate market? Or will we be more likely to experience a continued transition and more cooling off, leading into an economic downturn? Because if we're moving towards an economic downturn, then now would be the best time for you to sell for years to come.

However, if you're someone who intends to hold onto your property through any economic downturn, then now isn't the time for you to sell. But if you're someone who would like to sell before the next economic downturn hits us, while prices are still solid and good financing is still available for your buyers, then now may be the best time for you to sell.

So if you'd like more information on this, or if you'd like to discuss what your property would sell for right now in today's market, give me a call.

Your business deserves a great property. With service to match.

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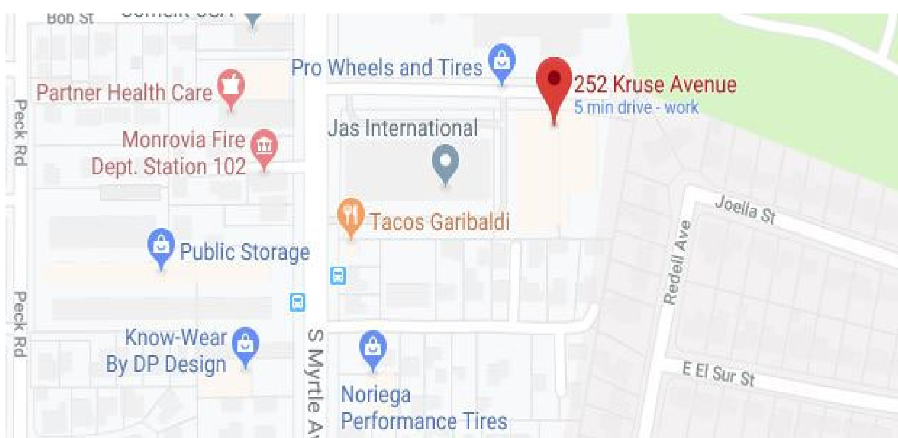
Industrial Building Available for Lease

Property Highlights

- Approximately 5,000 SF Building
- Excellent Location Close to Gold Line Station
- Easy Access to 210, 605 & 10 Freeways.
- Lease Price is $1.15 PSF MG
- Zoned Light Manufacturing.
- 16 Foot Ceiling
- Small Office Space



Shown by appointment only. Please call listing office to schedule an appointment.

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With service to match.**

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Property Highlights

- Beautiful Creative Office/Retail Suite Available For Lease
- Approx. 2,500 SF Suite
- Year Built: 1912
- Zoning: MOPD
- Asking Rate is $2.00/SF Modified Gross
- Features of Suite Include: Brick Walls, 2 Private Offices, Storage/Networking Closet, High Ceilings, Exposed Wood Beams, Polished Concrete Floor, Full Kitchen, and Private Bathroom
- One-of-a-Kind Office Space in Monrovia
- Free 3 to 8 Hours Public Parking Available Adjacent to the Building
- Located in Old Town Monrovia
- Walking Distance to Many Amenities
- Tenants Include Dentist, Accountancy, and The Peach Café
- Ideal for Tenants with Creative Tendencies
- Great Mix of Vintage and Modern Aesthetics