IDAHO BUSINESS REVIEW

Commercial real estate market remains strong statewide

By: Catie Clark May 15, 2020 0

It should not come as a huge surprise that commercial lenders are antsy in the face of market uncertainty. In a trend similar to single-family residential, the commercial real estate market has gotten tighter, though cap rates have remained steady despite the arrival of COVID-19 in March.

"Cap rates have not changed from what we've seen," said Lew Manglos, a commercial real estate investment specialist in the Boise office of Colliers International. "Fewer properties are going under contract compared to three months ago, but prices haven't really changed … Some lenders have gotten tougher in underwriting but not across the board. There are some still lending as if it was two months ago."

Cap rate, short for capitalization rate, is the rate of return on a real estate investment property based on the income that the property is expected to generate.

A number of factors are discouraging transactions right now, one of which is Idaho's low vacancy rate, especially for higher classed properties.

"For investors, it's still hard to find product to buy," Manglos told the Idaho Business Review. "Owners are reluctant to cut pricing and more inclined to hold onto properties. The cost of construction is another factor. Not many think that there will be a reduction in construction costs, which is another reason for property owners to keep hold on what they have."

The slowdown in transaction volume in Idaho reflects a national trend seen at the end of the first quarter 2020, according to market reports from Cushman & Wakefield, CoStar and TOK. In the short term, most commercial real estate indices have held steady. How trends will change if the economic downturn drags out is difficult to predict.

"The current situation is so new that there really isn't a consensus for how quickly we can come out of it or what the disruption in the long term may be," Manglos remarked.

The markets in eastern Idaho, Magic Valley and the Treasure Valley may stay robust, buoyed up by low vacancy, low interest rates and steady cap rates. While predictions over a possible implosion of the retail lease market abound, the outlook for the future isn't very different from the pre-pandemic conditions of the retail apocalypse.

The real change has been an acceleration of bankruptcies for firms such as J. Crew and Neiman Marcus, which were already on shaky ground; however, most of the endangered big box brick-and-mortar retailers have already exited Idaho. Whether small independent retailers will survive the next few months will depend on factors hard to predict, including whether there will be a resurgence of COVID-19 cases and how quickly consumer confidence will rebound.

Current uncertainty is offset by the strength of Idaho's economy going into the pandemic, including the conditions that make Idaho attractive such as lower cost of living and lower business lease rates compared to the major metropolitan markets.

"The fundamentals in our market are very strong," Manglos pointed out. "Vacancy is low and pricing is below construction cost. It's hard to see how our market won't outperform compared to others … It's really too soon to tell what is going to happen in the long term, but people look at Idaho and a lot of people will want to move here. I believe that this trend will be pronounced soon. People will be tired of being locked down (due to COVID-19) in places which don't have the quality of life we have in Idaho … I'm optimistic about the demand for both leasing and for buying investment properties. I think coming out of this that we will do well."