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Interest Rate Hikes Expected To Barely Dent Hot South Florida Market

South Florida Construction & Dev

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It's widely expected that the Federal Reserve will raise interest rates this year — possibly at each of its seven meetings, as Bank of America predicts. But South Florida commercial real estate experts don't expect that to slow down the booming market.

Jose A. Rodriguez, a real estate attorney and partner at Miami-based law firm Rennert Vogel Mandler & Rodriguez, said the market is so active, he couldn't envision a quarter-point interest rate increase making any significant difference on pricing or transaction activity.

Unsplash/Pepi Stojanovski

“That said, investors who see multiple looming rate increases may feel some urgency to buy now and lock in current rates,” Rodriguez said. “Most other markets around the country are not experiencing the level of demand we are seeing in South Florida. People are paying aggressive prices, but I’m not aware of any buyer that purchased in Miami-Dade County over the last 12 months that thinks it 'overpaid.'"

Beth Azor owns and operates neighborhood shopping centers in South Florida through her Azor Advisory Services. In the current market, she said, acquisitions will move full steam ahead even with rate hikes, but that's only “if you are lucky enough to find a deal to buy.”

However, refis could take a hit.

“We have all been scrambling to refinance our properties at the historically low interest rates we have enjoyed for the past decade,” Azor said. “Even though the cost of borrowing is still at all-time lows, the rush to refinance will slow down when rates start ticking upward.”

Multifamily or single-family rental owners could make up for any rate increases by raising rents, notes Brett Forman, executive managing director for the eastern U.S. at Trez Capital.

“Sectors like hospitality and office could feel a pinch, because hospitality is subject to more income fluctuations and office because of the uncertainty of demand," Forman said.

Native Realty CEO Jaime Sturgis said interest rate increases could create some pullback on larger institutional deals that rely heavily on debt, or on long-term fixed net-leased products that have been trading at lower cap rates between 3% and 4%, such as CVS, Walgreens and Starbucks.

"Considering there was significant cap rate compression on these assets over the last 18 months, the margins are already thin," Sturgis said. "With inflation rising, investors are better suited to get into investments that have annual increases and/or the rent floats with CPI increases each year.”

Berkadia Miami Senior Managing Director Charles Foschini summed it up, saying, “Interest rates are always a factor, but not always the most important one. Fundamentals are the most important, and in the Southeast generally and Florida more specifically, the fundamentals are exceedingly strong." He cited the confluence of rent growth, population growth, increasing high-wage corporate relocations, an open environment to do business, and the apartment supply shortage caused by the pandemic.

Interest rate hikes could actually prompt more dollars to flow into CRE, Forman said.

“In fact, rate hikes could cause many investors to flee the stock market, and seek safety and yield in real estate, so we could see more capital enter the space," Forman said. "People have to put their money somewhere.”