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Optimism and Excitement at 2024 McCoy Symposium

By Bendix Anderson
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Real estate dealmakers look forward to a much busier 2025. High interest rates and uncertainty have choked markets for commercial real estate since rates began their relentless rise two years ago. In 2024, banks and other lenders struggled to underwrite new loans and refinance expiring ones. Potential buyers and sellers argued about the value of assets.

Lenders are much more willing to lend to commercial real estate properties as the year comes to a close, according to real estate leaders who gathered at the 31st McCoy Symposium on Real Estate Finance, held December 13, 2024, in New York City. The symposium is named after real estate ...nd Bowen "Buzz" McCoy.

Short-term interest rates finally began to fall in the final months of 2024. Now, a consensus is building that long-term rates are likely to stabilize near their current level. Lenders have also compressed the spreads they add to their interest rates to record lows, Rosen says. The U.S. economy is strong, and inflation is relatively low—though a few at the symposium worried that inflation and higher interest rates could come roaring back if some proposed federal policies are fully implemented.

“People feel like it’s an extraordinary opportunity,” says Roy March, chief executive at real estate investment bank Eastdil Secured. March believes prices for commercial real estate hit bottom in the first quarter of 2024, after shrinking 10 percent to 40 percent since their peak in 2022. “They are looking at the relative value. This is a good place to be playing in the market.”

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Roy March, CEO of Eastdil Capital

Lenders return

A new regulatory regime of the U.S. banking system should result in “more risk-taking and less capital-hoarding” by banks, March says. “Banks are back.”

"The banks are definitely open for business, for the right transactions," Rosen says. "Representatives of two or three of the largest banks said that at the symposium."

The U.S. economy continues to be strong, helping some overbuilt real estate markets recover. The U.S. gross domestic product grew at an annual rate of 2.8 percent in the third quarter of 2024. Unemployment was just 4.2 percent in November, up only slightly from 3.8 percent the year before. Inflation increased prices at a rate of 2.7 percent a year in November, the lowest since 2021. While inflation concerns remain, that rate of inflation is also lower than the long-term average of 3.28 percent, according to a presentation by Clifton "Chip" Rodgers, senior vice president for the Real Estate Round Table.

Dearth of deals

Despite the strong economy and improving demand for many types of real estate, commercial real estate investors closed relatively few deals in 2024.

"It's going to be a slow recovery for commercial real estate—that was the consensus at the symposium," Rosen says. He doesn't expect the trendline for deal volume to veer suddenly upward. "It's not going to be a 'hockey stick' recovery."

To date, in 2024, investors spent $146 billion on sales and joint ventures to buy commercial real estate properties. That's down 13 percent from the same period a year earlier. It's also a fraction of the $381 billion investors spent during that period in 2022, according to data from Real Capital Analytics that March presented.

"The volume of deals has not increased through the third quarter," Rosen says. There was still a steep difference in 2024 between the prices sellers demand for properties and the prices buyers were willing to pay. "That's why transaction volume is not stronger," Rosen says. "Large deals—they're up quite substantially for 2024. [For] the aggregate market, they aren't."

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Ken Rosen is chairman of Rosen Consulting Group.

Interest rate cuts

Officials at the Federal Reserve finally began to cut interest rates in the last quarter of 2024. The top target for their benchmark Fed Funds short-term interest rate was 4.5 percent after their meeting December 18—100 basis points less than the 5.5 percent short-term interest rate at the start of the year. More rate cuts are likely in 2025—though perhaps not as quickly in late 2024, as Federal Reserve officials consider new data on inflation, according to their recent statements.

Rate cuts mark the end of two grueling years of rising interest rates as the Federal Reserve fought inflation. Before March 2022, the Fed Funds had not been higher than 2.5 percent since 2007.

will stay near 4.5 percent over the next two years, according to the forward curve, March says.

“Folks are basically saying: ‘I can’t wait for a better world. I think this is going to be the new normal,’” March says. “Animal spirits are stirring. That combination is going to create tremendous deal flow in 2025.”

Real estate investors have gotten used to interest rates at this level previously, March says. Since 1790, when Alexander Hamilton issued the first 10-year U.S. Treasury bond, the yield has averaged 4.55 percent. “This is not abnormal,” March says. “We have lived with 4 percent, or above, more often than not.”

Interest rates continue to surprise investors, however. Rosen says that 45 times, in the last 12 months, the yield on 10-year Treasury bonds rose or fell more than 10 basis points in a single day. In the years before the coronavirus, changes that large rarely happened more than six or eight times a year.

“This [volatility] shows there is a lot more uncertainty, still, in the market,” Rosen says. He expects the yield on 10-year Treasury bonds to rise higher than what other speakers at the symposium anticipate—going back to about 5.5 percent and staying there. He worries that proposals from the new presidential administration would increase the federal budget deficit from $1.9 trillion to a total of $2.5 trillion, risking higher inflation and interest rates. “[My estimate] was 100 basis points higher than the other speakers’ [estimates],” Rosen says. “I was the only one who said that; no one else agreed.”

Attendees also expressed some uncertainty about tariffs proposed by the new administration. “Traditional economic theory suggests that tariffs employed as they’ve been suggested could lead to significant inflation,” March says.

But the consensus at the symposium is that the most damaging proposals probably would never be fully implemented. “There was some nervousness about tariffs, about immigration, about tax cuts that might overheat the economy and also raise inflation,” Rosen says. “The consensus was [that] it’s just a negotiating tactic. I’m not so sure.”

Most of the dealmakers at the symposium expressed hope that policies planned by the incoming administration could stimulate the U.S. economy in general and commercial real estate markets in particular. “There is optimism among corporate leaders that lower taxes and lighter regulations are

Overall, the focus fell on opportunities ahead. “We had a lot of discussion [on] data centers and uniform excitement,” Rosen says.

Bendix Anderson

Bendix Anderson has written about commercial real estate, sustainable development, and affordable housing for more than a dozen years. His work has appeared in *National Real Estate Investor*, *Multifamily Executive*, *Affordable Housing Finance*, *City Limits* magazine, and other publications.

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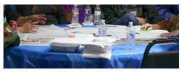

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