Once Again, Smaller May Be Doing Better in CRE Sales

It may be that financing smaller properties is easier, or perhaps the owners are more motivated to sell.

By Erik Sherman

A lot of attention in CRE focuses on large sales and projects, and anyone following the news has seen how transaction numbers have plummeted. That's in year-over-year comparisons with 2022 being an unusually large baseline.

But not all property transactions are hit at the same rate. Forget about subsectors by type for a moment and think size. There's ongoing evidence that smaller CRE property sales have held up better than large ones for at least the last year.

Green Street's Real Estate Alert noted that in 2023, property dollar sales of $5 million to $25 million in size outperformed by percentage change dollar sales of properties with values of $25 million or more, compared to 2022.

The smaller properties saw $82.70 billion in total transactions in 2023, according to the firm. In 2022, the number was $109.24 billion. The year-over-year drop was 24.3%. It was the largest direct year-over-year fall that the company has documented since they started tracking smaller deals in 2019. Interestingly, the 2023 total was still 20.3% above 2019's $68.77 billion. Given that, last year might not seem so bad in perspective.

For the larger properties, the fall from 2022 to 2023 was 52%, although the annual dollar figures weren't available.

Green Street first noticed this pattern in transactions in the first half of 2023. According to them, $38.89 billion of all properties changed hands in that period. In comparison, that number was $55.12 during the first half of 2022. That was the biggest overall largest six-month decline since 2019. However, in the $25 million-plus category, sales were down 61% year over year. The $5 million-to-$25 million category fell, too, but only 29%.

At that time, which was late August 2023, the reason according to Green Street and the capital market professionals at 43 brokerages they spoke to, was a shift in who was doing the business. Private buyers tend to be more active in times of stress. "While they're hamstrung by high interest rates like their institutional counterparts, their typically much-longer hold periods allow them to view the cost of capital through a different lens," they wrote at the time.

In the most recent analysis, they further said that better sales of smaller properties has been the case in previous down cycles. Private investors can generally hold their capital for a longer time until they see a downturn at which point, they can profit from distress.

Paralleling the better sales of smaller properties, also last August, Trepp noticed that CMBS loans below $50 million used to be more in danger of delinquency than loans at or above $50 million.

And yet, July showed an inversion of that standard, only the third time in 13 years it has happened. The previous times were July 2012 and June 2020, each one in a period of economic distress.