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Fourth-Quarter Property Sales Post Worst Slowdown Since the Great Recession

Marked Drop in Transactions Could Carry Into 2023, Executives Say

The later part of 2022 had far fewer large sales than the first half of the year, when deals such as the $261 million sale of 55 Corporate Drive in Bridgewater, New Jersey, were more common. (James Hooker/CoStar)

By Mark Heschmeyer
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U.S. property sales for the fourth quarter, usually the most active part of the year, are shaping up to be among the worst on a percentage basis since the country was in the throes of the Great Recession.

CoStar Group data as tabulated through the first week of January shows fourth-quarter sales so far are amounting to less than 25% of the year's total volume. If the results stand, it would be only the third time a slowdown of this scale has happened this century. Fourth-quarter U.S. real estate deals were 17.9% of the annual total, the lowest this century aside from the 17.3% in 2008.

The slowdown in transactions evidenced in the data is likely to continue into at least the first half of 2023 as a recession looms and the Federal Reserve continues raising borrowing rates, investment sales brokers told CoStar News in email interviews.

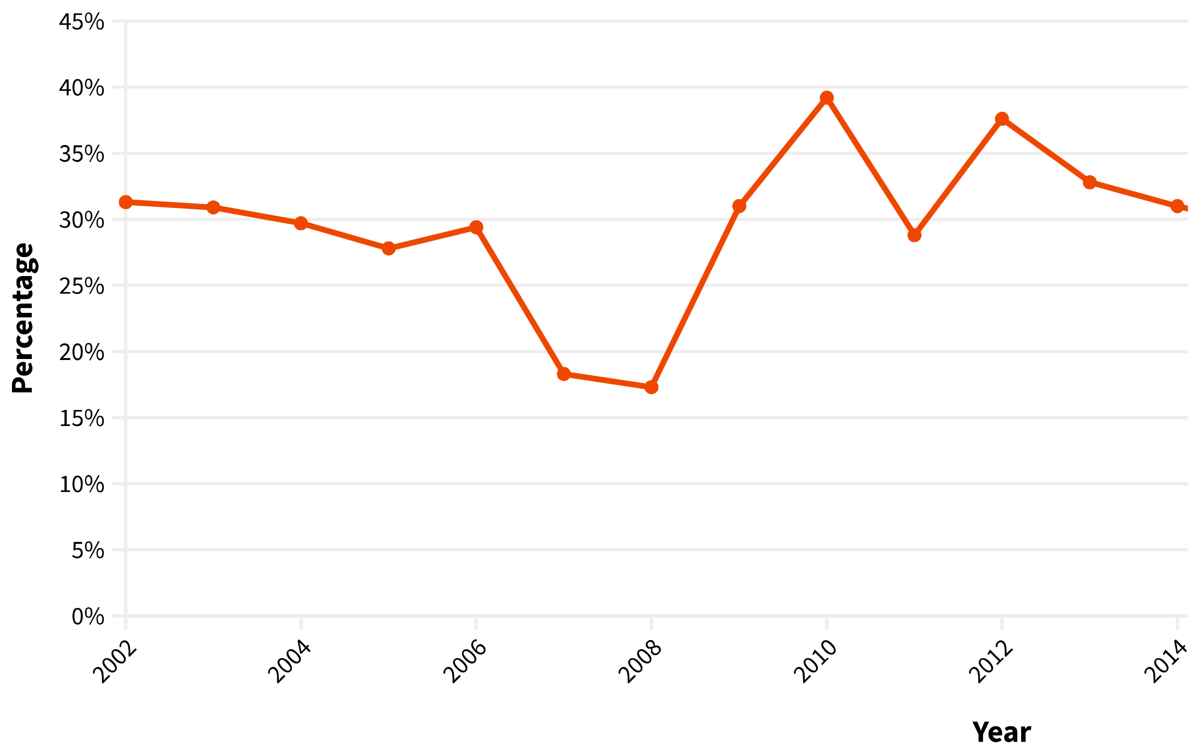
"Historically, the fourth quarter is always a high-volume quarter with deals rushing to get done before the end of the year for various reasons such as political policy changes, taxes or just trying to spend down annual required allotments. Last year, it was very different," said David Dirkschneider, managing director of Capstone Companies in Oklahoma City. "Starting in the third quarter, things got very quiet, and what happens in the third quarter closes in the fourth."

Dirkschneider projected fewer sales in 2023.

"The pipeline is much lighter than 12 months ago," he said. "So, I believe the first and second quarters will be fairly slow, with some deals transacting, but only when the seller has a specific reason to do so."

Plunge in Late-Year Property Deals

Fourth-quarter U.S. commercial real estate sales as a percentage of the annual total



Source: Source: CoStar Group, January 2023

The deceleration in the third quarter started on the sellers' side, according to Michael Jerbich, president of B. Riley Real Estate in Chicago.

"We saw a slowdown of listings coupled with a shrinking buyer pool," Jerbich said. "Given the continued interest rate hikes, many buyers sat on the sidelines due to the short-term uncertainty."

He said that many sellers opted for a "wait and see approach" because of capitalization rate increases, which indicate more risk in a real estate investment. Another industry concern affecting deals is whether the Fed can successfully reel in inflation while not throwing the economy into a recession.

Like Dirkschneider, Jerbich expects low sales volume in the first half of 2023.

Brokers across the country said activity in their market matches the downward trend emerging in CoStar data.

"Anecdotally, transaction volume appears to be down quite a bit," said Zach Wright, director and partner of Blue West Capital in Denver. "We're in a period of price discovery as buyers and sellers work to figure out appropriate pricing in today's environment. This is a unique year and previous norms are unlikely to apply. The change in the market from January 2022 to December 2022 has been pronounced."

Far Under Century Average

While CoStar is still researching and tabulating fourth-quarter sales, in-house analysts do not think there are enough large, uncounted deals to significantly make up the gap that has emerged so far.

The fourth-quarter sales total of $156 billion as of the first week of January was the lowest fourth-quarter total since 2013. Fourth-quarter sales have averaged $201 billion over the past 10 years, according to CoStar data.

Sales in the fourth quarter made up only 17.9% of the year's total. The average percentage for the century has been 30.3%, CoStar data shows. The latest quarterly percentage is just slightly better than the lowest mark recorded since 2000 of 17.3% in 2008.

"The volatility in the debt markets caused most institutional investors to be strategic in their activity," said Joe Cesta, executive vice president of CBRE National Partners in Newport Beach, California. "The debt markets caused larger transactions of more than $250 million to be more problematic, while smaller transactions still traded."

CoStar data supports Cesta's observation. Sales of $250 million or more fell 64% in the second half of the year over the first half. Sales of less than $250 million fell just 19%.

Fourth-quarter weakness "is mainly due to the spike in borrowing rates," said Lev Mavashev, managing principal of Alpha Realty in New York. "We saw rates double in a span of 10 months. Buyers were quoted 3% debt in February and March, and then 6% in September and October. Yikes."

Even deals that were slated to close got postponed — some more than once, according to Mavashev.

Todd Hamilton, managing partner of Citywide Commercial in Phoenix noted two other reasons for the fourth-quarter doldrums: historically low inventory levels of listed properties for sale and for-lease properties, and the fear and constant drumbeat of a 2023 recession.

"Investors are holding until they have a better understanding of where the market is headed in 2023," said Michael Wess, partner of Bull Realty in Atlanta. "Most sellers have not discounted their pricing far enough to match buyers' appetite to bite."