EXCLUSIVE

How and Why Macro Events Could Hit CRE

By Carrie Rossenfeld | San Diego | January 19, 2016

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SAN DIEGO—Many different macro events could have a profound impact on the **commercial real estate** market in the near term. In **part 1 of a two-part story**, GlobeSt.com spoke exclusively with **Pathfinder Partners**' senior managing director and co-founder **Mitch Siegler** about those events as he prepares to speak on a panel about the subject during the **IMN Forum on Real Estate Opportunity and Private Fund Investing** in Laguna Beach, CA, this week. In part 2, below, we discuss with Siegler how these events could impact CRE and how his firm takes these events into account in its business dealings.

GlobeSt.com: In what ways do you think commercial real estate will be impacted by the macro events we discussed earlier—and why?

Siegler: In many US cities—like New York, San Francisco and Seattle—one-person households comprise 35% to 40% of total households. That has positive implications for studio and one-bedroom apartments, and we'll likely see more micro-units (those below 300 square feet) in these cities. We'll see people bunking up—roommate situations—for two-bedroom units and continued strong demand for detached, single-family rental homes. It's clear that **single-family rental homes** aren't just a trade, they're a bona fide asset class. With **interest rates** projected to remain low for the foreseeable future, we'll see more **apartment development**, especially in cities that are supply constrained and in markets with limited land or other barriers to entry. Meanwhile, homebuyers are opting for smaller homes—perhaps the same number of bedrooms and bathrooms, but in a smaller footprint. All of the above suggests lower US consumer spending on home furnishings and home décor, another big sector of the **economy.**

GlobeSt.com: When will we see interest rates rise and how much? What impact might this have, if any?
Siegler: The **Fed** is talking about four interest rate bumps in 2016, while the futures markets are looking for two. If I were a betting man, my money would be on the bond market, and I would bet on pretty small increases—probably 25 basis points each. European countries and Japan had to backpedal on their prior interest-rate increases and today have far lower rates than we do. It's hard to see us sustaining major interest-rate increases in an environment of sluggish growth and deflation in energy and commodities when others around us can't manage to tighten.

GlobeSt.com: What's your firm's strategy to investment? Do you or how do you take macro events into account?
Siegler: We control what we can control and bob and weave the best we can. We seek to mitigate risk by keeping leverage low, generally fixing our interest rates and emphasizing cash-flowing properties with strong downside protection. We prefer **multifamily** and **residential** properties—everyone needs a place to rest his head—and it's easier than trying to figure out what's happening with **office-space** utilization and the future trends for disintermediation by the **Internet** of traditional **brick-and-mortar retail stores**.

We stick to markets we know well—those with strong population and job growth, strong transportation corridors and a plethora of recreational and cultural activities—and we look for catalysts in those markets—or particular neighborhoods that may be gentrifying that may provide tailwinds over the next few years.